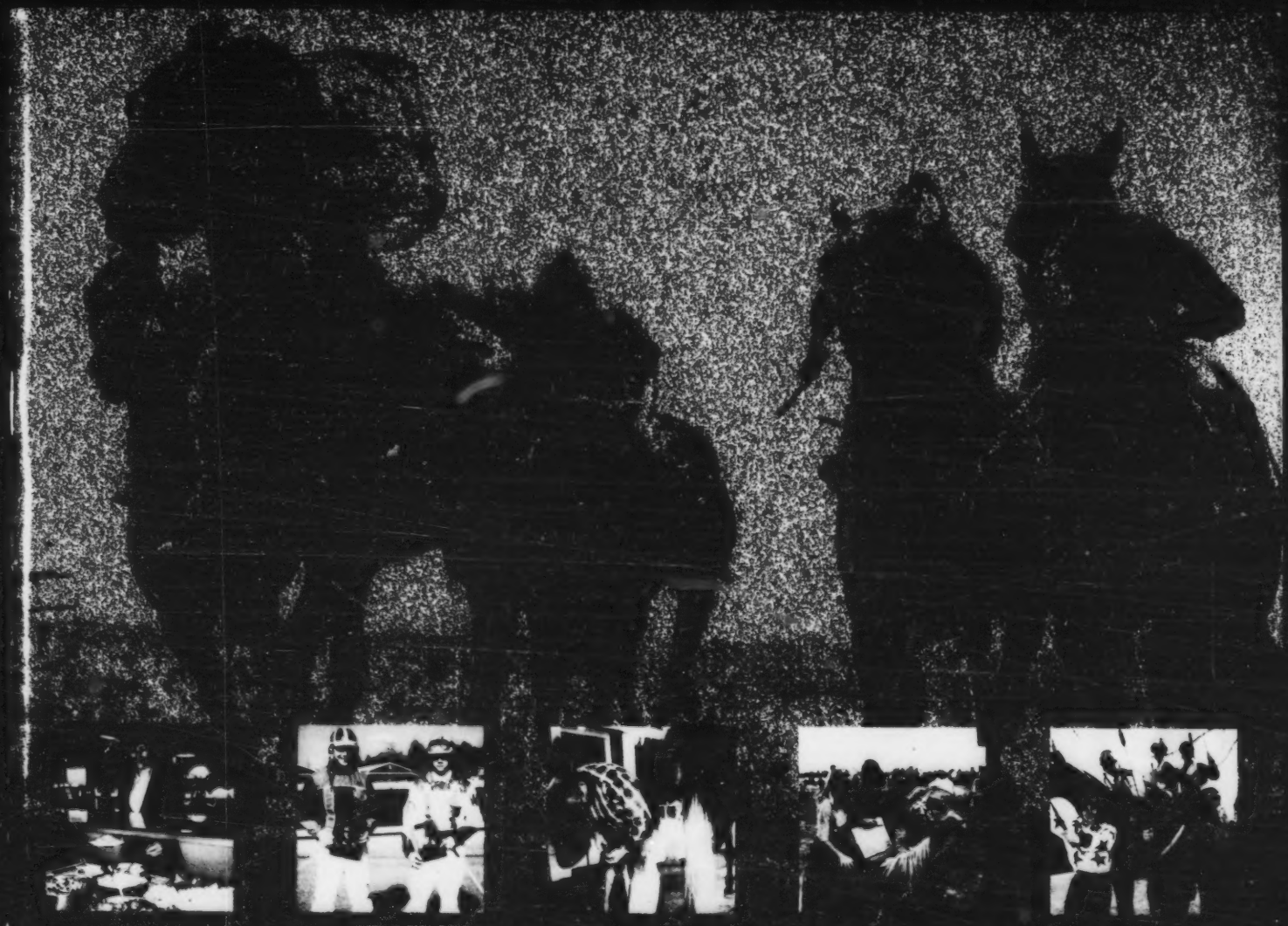

The Road to Recovery

Horse Racing in British Columbia

A report by:

BRITISH COLUMBIA

Economic Development Committee
British Columbia Racing Commission
2 May, 2001

BRITISH COLUMBIA

April 20, 2001

A message from the chair, British Columbia Racing Commission

In the year 2000 economic development for racing was added to the regulatory role of the BC Racing Commission by the Minister of Labour. $1,000,000 was mandated for an Economic Development Committee to spend on innovative activities to enhance racing's competitiveness and to attract new clientele. In order to develop some long-term strategies for the future economic viability of racing, the Commission appointed people with expertise from horse racing, business, promotion and customer service.

The Committee worked hard over many meetings and sought advice from participants in the racing industry, the Commission and others. Their plan was approved by the Commission and then by the Minister of Labour in March, 2001. We are pleased to be able to present this report that brings together all that expertise and provides valuable advice for the future. The Economic Development Committee will now continue its work with the allocation of resources to the development of annual objectives and plans for their implementation.

The Commission would like to take this opportunity to thank the Economic Development Committee for the solid foundation it has provided and its continued work.

Yours truly,

Lorna Romilly
Chair
BC Racing Commission

Ministry of Labour

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A message from David Milburn

Chair, Economic Development Committee

It is a pleasure for me to present the results of a comprehensive assessment of what, in our view, is required to set British Columbia horse racing on the road toward good health and prosperity.

Our committee was formed as a direct result of strategies announced by the Hon. Joy MacPhail in the spring of 2000. The minister expressed a determination to make "economic development" the highest priority of the industry. The British Columbia Racing Commission put together a team of nine people, from both within and outside horse racing. These committee members invested generously of their time, energy, expertise and ideas.

We are particularly grateful for the solid support given us by the Commission itself and, most notably, the Chair, Lorna Romilly, Commissioner Peter Ellickson, Secretary-Treasurer Linda Syssoloff (recently retired) and the Director of Racing. Joseph Horton. We have been propelled by goodwill and positive ambitions.

The reports of many others who went before us were of great assistance, as were the submissions of stakeholders representing every aspect of the racing industry in B.C. We are convinced that recovery is attainable, but there are no easy solutions. The horse racing industry - both thoroughbred and standardbred - must unite behind an appropriate, credible and practical plan.

We see this report serving as a catalyst, encouraging the contributions of everyone who cares. In that sense, it might be viewed as a "Call to Post."

Yours truly,

David Milburn

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Economic Development Committee

This committee was constituted by the British Columbia Racing Commission (BCRC) in August, 2000 and assigned to develop a long-term plan for the recovery of the province's horse racing industry, which has been in decline for almost 20 years. Earlier in the year, the government announced that it would be rebating for the benefit of the industry the final 3% segment of the tax that, historically, has been collected off the top of the pari-mutuel handle. Most of these funds (estimated to represent $3.3 million in 2000-2001) subsequently flowed through to the industry, but the minister responsible for horse racing set aside the sum of $1 million for initiatives which might be suggested by the new committee. Since the committee was appointed for a two-year term, the following report assumes the effective investment of $1 million for each of these two years. This and the implementation of any or all of the recommendations will later be determined by the Commission and/or the Government of British Columbia.

The BCRC structured the committee to ensure a mix of credible horse racing representatives and professionals from outside the industry, who brought with them expertise in marketing, promotion, customer relations, human resources and modern sports management.

Precise terms of reference, the news release announcing the committee, a letter to stakeholders and biographical notes about each of the nine committee members can be found in the appendices to this report.

THE COMMITTEE:

David Milburn, Chair
Gary Bannerman, Vice-Chair
Gar Campbell
Virginia Greene
Karen Harrison
Bryant McAfee, F.C.A.
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Printed by Pacific Printing & Graphics

DISCLAIMER

The content of this report is a consensus of the proceedings and views of the Economic Development Committee, and does not necessarily reflect the opinions of the British Columbia Racing Commission or the Government of British Columbia.

British Columbia Racing Commission

Lorna Romilly, Chair
Gar Campbell
Peter Ellickson
Jane Henderson, Q.C.
Gordon Larkin
Fanny Monk
Judge Alfred Scow

Linda Syssoloff, Secretary-Treasurer (ret.)
Phillip Dong, Secretary-Treasurer

Joseph Horton, Director of Racing

Acronyms & Industry Terms

(as used in this report unless otherwise specified)

- ARC Alberta Racing Corporation
- BCRC British Columbia Racing Commission
- BCSA British Columbia Standardbred Association
- BCSBS British Columbia Standardbred Breeders Society
- CPMA Canadian Pari-Mutuel Agency
- CTHS Canadian Thoroughbred Horse Society, B.C. Division
- HBPA Horsemen's Benevolent and Protective Association of B.C.
- HRIF Horse Racing Improvement Fund
- IVR Interactive Voice Response
- OJC Ontario Jockey Club
- PRA Pacific Racing Association
- RIB Racing Industry Board (New Zealand)
- SAM Self Activated Machines
- TAB (British Columbia) Telephone Account Betting
- TAB (New Zealand, Australia) Totalisator Agency Board
- TBC Teletheatres British Columbia as in TBC Teletheatres

The Jack Short Press Room Collection

Photographer Ralph Bower and the late Harry Filion immortalized many of the B.C. sport's greatest moments and personalities. Bower, who is shown below hamming it up in front of one of his countless famed thoroughbred images, has created during 2001 a tribute to Jack Short at the Hastings Park Press Room. Track announcer Short, the "Voice of the Races" for decades, was synonymous with horse racing. There were tears in many eyes when he signed off his last race day and broadcast on CJOR with his trademark farewell, "Adios Amigos."

Photo Credits

Patricia Bannerman	1, 2, 29, 31(top), 33, 40, 41, 54, 56, 60, 61, 62
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The Cover

Action shots by Martha Toth (standardbred) and Ralph Bower (thoroughbred) are highlighted by Patricia Bannerman and Ralph Bower cameos. Design by Stewart Jung

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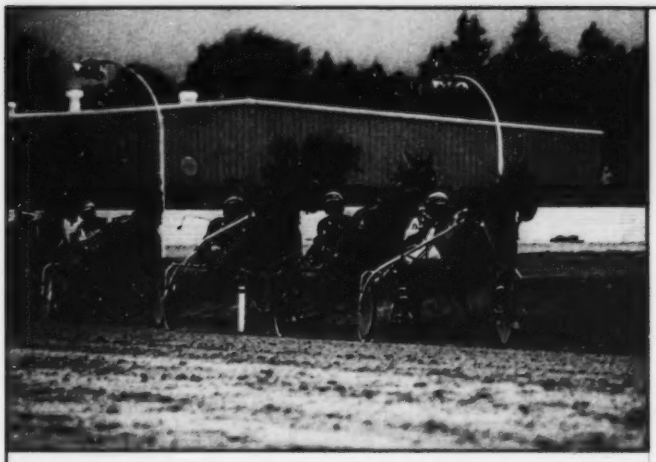
Principal Recommendations

- The highest priority of the British Columbia horse racing industry and all related agencies must be a new world class racetrack complex, operating 12 months of the year, and featuring both thoroughbred and standardbred racing.
- New racetrack developments should not be considered without assurance from provincial and local governments that slot machines would be approved at the location. Furthermore, if municipalities hosting racetracks remain hostile to the installation of slot machines, the provincial government and the British Columbia Racing Commission should strongly urge existing tracks to move.
- Horse racing must stand on its own as a self-sufficient enterprise, but the role of government should be to create the climate and conditions for substantial private investment. Horse racing has never received the economic development support available to other industries. Successive governments have focused only upon taxation, regulation and enforcement.
- The split of net pari-mutuel revenue must be simplified. After costs for the Canadian Pari-Mutuel Agency and the BCRC are covered, the balance should be shared between operators and horsemen. The effect of this would be an end to special programs such as the Horse Racing Improvement Fund.
- As part of the restructuring of pari-mutuel formulas and the implementation of economic development strategies proposed in this report, the takeout from the pari-mutuel handle must be reduced, returning more money to the fans.
- Substantial effort must be made to define "the racing brand," and rediscover an identity within the sports and entertainment market, rather than the single-minded focus on gaming so dominant in recent years.

- New marketing initiatives must be implemented to acknowledge and encourage long-term supporters, win back former customers and create new fans.
- The teletheatre business in British Columbia is urgently in need of restructuring, redesign and reorientation toward market development for the racing industry. Standardization and modern franchise concepts must be implemented where feasible. The committee endorses recent decisions to permit stand-alone teletheatres in the Greater Vancouver area.
- The British Columbia industry, possibly using TBC Teletheatres' domain www.thebettingcompany.com as a vehicle, should make the investment necessary to become a world leader in horse racing Internet technology, including on-line wagering.
- British Columbia's teletheatres should seek federal and provincial permission to become complete sports books, with wagering on popular professional events.
- Progressively higher purses, as recent tax reprieves take root, and recovery initiatives such as those outlined in this report, should mean a better on-track product and more investment in horses by current and new owners. A crucial thrust must be to preserve and regenerate what is left of the province's breeding industry.
- Fiscal difficulties within the British Columbia sport have seriously damaged the self-image of the industry, but we should not lose sight of the horse racing heritage in this province, the traditional high per-capita wagering of the average B.C. fan and the large number of substantial horse investors and fans who would flock back to a better situation. If the recommendations of this report are all successfully implemented, including slot machines and urban teletheatres, the business case would be undeniable, attracting many suitors.

The Road to Recovery

Horse Racing in British Columbia



Preface

The horse racing industry of British Columbia, paralleling the experience in most jurisdictions in North America, has gone through almost two decades of decline. The appendices to this report provide a long list of studies that have analyzed the trends here and elsewhere, but there is a common thread to it all:

- The growth of casinos and lotteries has created impossible competition for racetracks.
- The management of the racing industry just about everywhere failed to keep pace with the evolution of sports and entertainment options available to young urban fans. Horse racing audiences aged along with the fading exterior and amenities of most racetracks.
- The worse things became, the more effort was placed upon squeezing more money from the diminishing audience of pari-mutuel bettors. Not enough attention was given to attracting new audiences to the beauty and excitement of the sport.
- Governments clung to the old regulatory models created when racing was the only legalized gambling, extracting taxes from the gross pari-mutuel handle. Conversely, newly-approved forms of gaming were taxed only on their net profit.
- Most industries can look to some department or agency of government (forestry, fisheries, agriculture, tourism, high-tech, transportation, manufacturing and other sectors of the economy), the mission statement of which is to assist with developmental strategies. Horse racing has never enjoyed that kind of attention.

To set the scene for the work of this committee it will be necessary to provide some background about the experience in British Columbia and elsewhere, but we see no value in duplicating the informative publications listed in the appendices to this report.

An industry in crisis

The British Columbia industry is in crisis, a victim of all the negatives in the preceding list, most notably the growth of lotteries and casinos in the province. These forms of gaming grew from $70 million in 1980 to $700 million in 1990 and over $1.5 billion today. This does not include the considerable casino competition just across the border in the State of Washington or the brisk trade between British Columbia and Nevada.

Responding to this, all provincial governments from Quebec west have gradually reduced and ultimately eliminated the tax on the pari-mutuel handle. And they all have permitted slot machines at racetracks. Ontario, upon winning its tax reprieve five years ago, began a dramatic recovery and since the advent of large slot machine casinos at most tracks (since 1999), the industry there is in the middle of a boom that has caught the attention of the entire sports world.

A new era for B.C.

The tax changes the industry had been requesting for years were approved by the government of B.C. in the spring of 2000 and appropriate legislative changes were made. But a new Act also expanded the responsibilities of the British Columbia Racing Commission. Historically, legislation narrowly defined the role of the Commission to be a regulator, ensuring proper conduct of race meets and to protect the interests of both fans and horsemen.

The new era put the Commission into the economic development business. This committee is the first step. BCRC officials put together a team of people who could understand the interests of both the thoroughbred and standardbred sectors, but added to it individuals with a proven track record in modern sports management, customer relations, human resources, communications, marketing and promotion.

THE ASSIGNMENT

The principal assignment was to create a road map for the industry's long-term future. Those who devised this strategy anticipated that the process of achieving a good plan might be costly and that beneficial projects could need seed money. So the second part of the challenge was how best to spend $1 million during the first year (2000-2001). These funds would enable the completion of a detailed plan for industry recovery and initiate some of the recommendations contained in this report. If more funds are made available to the committee during 2001-2002, more progress could be made on what is proposed in this document.

A tight deadline was established for preliminary investigation and this first report. In addition to the assembly of all previous research papers and business development documents; the committee was quick to dissect the nature of the assignment, ultimately evolving it into three subcommittees:

- ***Governance & Industry Trends*** - this team studied the structures for managing and financing the industry, along with modern trends such as the consolidation of track ownership in North America, teletheatres, international simulcasting and high technology.
- ***Product*** - this subcommittee analyzed every aspect of live racing, from the physical plant of racetracks to breeding, training and racing horses. They looked at the competitive product on the track, and the resulting entertainment value for fans.
- ***Marketing & Customer Service*** - this group began by analyzing all previous studies, and then compared horse racing and its "brand" identification with more popular sports and entertainment attractions. It then considered the kind of study that must take place to determine what might draw new and younger fans to racetracks, and a variety of marketing and promotional concepts.

After the three committees had explored the frontiers of their responsibilities and started to formulate ideas, a formal announcement was publicly made about the work that was taking place. Invitations were issued to all interested parties, particularly stakeholders, to meet with us. A preference was expressed for written submissions to accompany any oral presentation, but this was not mandatory (see appendices). Following the meetings with stakeholders' representatives, the subcommittees reported out to the full committee and recommendations started to come together.

Following are some points of philosophy and principle that have guided committee recommendations:

STATEMENTS OF PRINCIPLE

THE COMMITTEE VIEWS THE INDUSTRY'S CURRENT LOW EBB AS A REMARKABLE OPPORTUNITY TO BE BOLD. THE LONG DECLINE HAS ABUNDANTLY DEMONSTRATED THAT OLD APPROACHES DON'T WORK ANY MORE. BOTH GOVERNMENT AND THE INDUSTRY MUST HAVE THE COURAGE TO BLAZE NEW TRAILS.

THIS REPORT STRONGLY SUPPORTS THE INDUSTRY POSITION ON SLOTS AND GAMING COMPETITION, BUT THE COMMITTEE BELIEVES THAT THE GREATEST CHALLENGE IS THE DRAMATIC LOSS OF FAN APPRECIATION FOR THE OPEN-AIR FEEL, SMELL, SOUND, COLOUR, AND CONDUCT OF THE SPORT ITSELF.

STATEMENTS OF PRINCIPLE

WHEREVER IT MAKES SENSE, FUNDS RECOMMENDED BY THE COMMITTEE SHOULD BE FORWARDED AS REPAYABLE GRANTS, RECOVERABLE IF THERE IS A CHANGE OF EQUITY OWNERSHIP OR IF SEED FUNDING PRODUCES PROFITABLE ACTIVITY. THE COMMITTEE MAY ALSO INSIST UPON MATCHING PRIVATE SECTOR INVESTMENTS.

WITH RESPECT TO THE MOST AMBITIOUS FINANCIAL PROPOSALS PRESENTED BY STAKEHOLDERS TO THIS COMMITTEE, AND OTHER INITIATIVES THAT HAVE EVOLVED FROM THE DISCUSSIONS, WE HAVE REFRAINED IN THIS REPORT FROM SPECIFIC DOLLAR ALLOCATIONS. THE COMMITTEE, WHERE APPROVAL IN PRINCIPLE IS STATED IN THIS REPORT, WILL PLACE THE HIGHEST PRIORITY UPON CONSULTATION WITH ALL PARTIES INVOLVED TO CREATE A BUSINESS PLAN, ESTABLISH FINANCIAL CRITERIA AND TO RECOMMEND THE TRANSFER OF APPROPRIATE FUNDING.

EVERY REQUEST MUST GO THROUGH AN ECONOMIC DEVELOPMENT ASSESSMENT, WHICH WILL TAKE A MACRO VIEW, RATHER THAN MICRO. EVERY AGENCY WITHIN THE INDUSTRY HAS A LONG LIST OF DESIRABLE EXPENDITURES, BUT THE COMMITTEE ASKS "DOES THIS ADVANCE THE CAUSE OF THE WHOLE INDUSTRY" OR IS IT MERELY AN OPERATIONAL BUDGET ITEM FOR THE RECIPIENT? THIS DOES NOT NECESSARILY DISQUALIFY SITE-SPECIFIC INVESTMENTS IF THE ITEM IN QUESTION COULD BE PRESENTED AS A PILOT PROJECT FOR THE TOTAL INDUSTRY.

I. State of the Industry

The paradox of modern North American horse racing is that in most jurisdictions it is almost impossible to find a positive set of statistics concerning the live racing product: breeding, numbers of horses and owners, attendance, track revenue, wagering or related criteria, but the management in place, invariably new, seems highly charged and optimistic. There are several reasons for this:

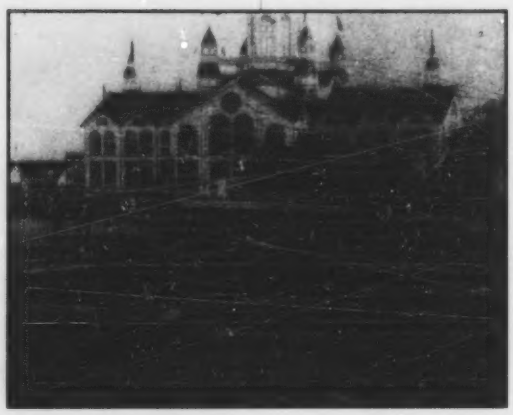
- Major corporations with sophisticated skills are leading a renaissance in most of the famous North American racing jurisdictions. Strategic alliances among track operators and the consolidation of ownership into fewer hands are evolving unprecedented synergy, consistency, technology and talent to the benefit of everyone.
- One by one, the states and provinces are recognizing that the lottery, casino and slot machine environments they have permitted to surround their more economically diverse racing industry, have had serious consequences. Once racetracks are given permission to install slots or some form of alternative financial participation in government revenues from gaming, recovery of the sport is invariably dramatic.
- Canada's Ontario is a boom story that has become a marvel of the sporting world, and it will be covered at length later in this chapter.
- Gross pari-mutuel handles in Hong Kong, Korea and Japan show staggering numbers, an influence which is beginning to have a major impact in North America. Japanese racing is almost invisible from a Canadian perspective, but the 1998 pari-mutuel handle was $US 35 billion, and $US 1.3 million

per race. Hong Kong wagered $US 11 billion in the same year, but an astonishing $US 17 million per race. Korea attracts 80,000 and more people to a race card at each of its two tracks, who invariably wager $US 25 million a day - $US 3 billion in 1999 on about 120 race dates.

- Harness racing is undergoing substantial recovery in Europe and numbers of "trotting" specialists from Scandinavia and Europe are becoming stars in the United States.
- Year-round utilization of racetrack complexes, with simulcasting, slot machines, and conference centre services on non-race days, is generating new cash flow. State-of-the-art joint-breed facilities in major markets such as Woodbine in Toronto and The Meadowlands near New York deliver unparalleled utilization of assets, 12 months of the year, with enviable management, staff and operational economies.
- There are so many obvious problems within typical racing operations that fundamental modern-day corrections cannot fail to deliver major improvements. Modern planners believe the bottom has been reached.
- Horse racing always survives - a 3,500 year story.

Capsule History British Columbia

West coast horse racing dates back to 1848 in Victoria. There have been professional thoroughbred tracks in Vancouver and Richmond since the late 19th century. Columbia Street in New Westminster (and other main streets in the province) was sometimes closed for horse racing events. Harness racing is almost as old, beginning at Victoria's Beacon Hill Park and in the Okanagan (including races on ice) long before 1900.



Racing at "The Willows" in Oak Bay, near Victoria, in 1902

The thoroughbred sport has been professionally and continuously operated since 1889 at Hastings Park (originally East Park). During various chapters of history racetracks have also flourished at Minoru, Brighouse and Lansdowne Parks in Richmond. In 1961, all activity was merged at the Pacific National Exhibition, under a new private sector company, the British Columbia Jockey Club. The new company was a merger of previous track owners, headed by Jack Diamond and William A. Randall Sr. In 1964-65, the present grandstand complex was constructed and while there have been many cosmetic improvements and renovations over the years, it is substantially the same today as it was then. Even less has been done during the past 35 years to upgrade the stables and backstretch amenities.

Although harness racing in B.C. goes back just as far as the thoroughbreds, it struggled to establish professional roots. There had been sporadic county fair meets, hosted by local farmers, all over the province at various times in the history. A group in Delta made repeated tries throughout the 1960s to establish harness racing at Paterson Park in Ladner, with flickers of success. Pat Brennan, the once famous mayor of Squamish, tried to get harness racing in his town but ended up being a major force at Paterson Park and the later successful efforts at Cloverdale.

Jim Keeling Sr. first arrived in B.C. in 1974 at the invitation of the Cloverdale Fair Board. The board had asked an Agriculture Canada official who could advise them about how to conduct a harness racing meet. Keeling, the owner of Ontario's Orangeville Raceway, had a lifetime of successful businesses behind him including a string of 100 standardbreds racing all up and down the Eastern seaboard.

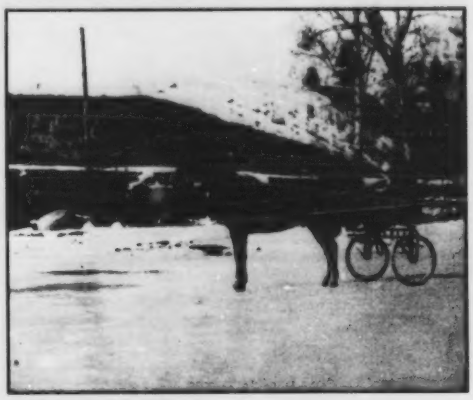
Cloverdale Raceway opened for business on January 1, 1976 and never looked back. Keeling had to yield to the seniority of the established thoroughbred industry and build his sport during the less satisfactory winter months. But in 1978 he convinced the Randall family, owners of Victoria's Sandown Park, to permit him to run a summer harness racing meet. Sandown began an era of highly successful harness racing, enabling the construction of a brand new grandstand in 1981 and gradually evolved into an exclusive standardbred venue.

Substantial improvements took place at Cloverdale Raceway in 1996, including an expansion of the racetrack from a half to 5/8ths of a mile. The work was financed as a partnership between the track operator,

horsemen's associations and the BCRC through the Horse Racing Improvement Fund (HRIF). The business was renamed Fraser Downs.

Sandown Park in Victoria was originally created by Bill Randall Sr. during the mid-1950s to save the thoroughbred sport in the provincial capital, which formerly had raced at The Willows in Oak Bay, in Colwood and, in the early days, at Beacon Hill Park. The nonprofit Capital City Turf Club, with largely volunteer efforts, conducted October - November weekend thoroughbred racing until 1992. Vancouver interests argued against the cost and inconvenience of moving horses to Victoria, as opposed to a longer and more profitable season at Exhibition Park. Vancouver Island fans and horsemen were promised that the new teletheatre era would make up for what they lost, but it was small compensation for the dedicated horsemen of Victoria. Sandown Park has been exclusively standardbred since 1993.

Racing in Vernon at Kin Racetrack in 1893



Ice racing in the Okanagan, late 1890s

Today, harness racing operates at Fraser Downs from October through April and at Sandown from late June until early September. Most races at both venues occur on weekends and holidays.

The Hastings Park thoroughbred season runs from April through to early November. The Interior Racing Association runs about 20 thoroughbred race cards each year, half of them at Sagebrush Downs in Kamloops and half of the rest at Kin Park in Vernon. One or two race days a year are usually held at Sunflower Downs at Princeton and Desert Park in Osoyoos. City development plans in Vernon have caused concern among horsemen for the future of Kin Park, but a business group initially backed by the municipal government has plans for considerably more racing at Osoyoos, if slot machines are approved.

The Teletheatres, approved by legislation in 1994, are pari-mutuel facilities located as adjuncts of hotels and lounges. Originally in 19 B.C. centres, the network was later expanded to a maximum of 28 outlets. The live racing venues at Hastings Park and Cloverdale/Fraser Downs, and their horsemen's associations, requested protection for live racing, meaning that the nearest approved teletheatre was in Chilliwack. Consensus changed in favour of city teletheatres as years passed, particularly one in Richmond, but concerns about capital investment delayed the development.

The vision for the teletheatres was not only to put pari-mutuel opportunities close to new audiences, it was thought at the outset that this would be an extraordinary market development opportunity, using each centre as a promotional base to win new fans for the sport, offering travel packages to live racetracks and new horse owners and syndicates. While the network has made a respectable contribution to the industry's total pari-mutuel handle and a few outlets are seen to be quality operations, most of them are unsatisfactory. This will be addressed at length later in this report.

The disastrous decline

Live thoroughbred racing at Exhibition Park (now Hastings Park) in 1982 attracted 1.1 million fans to 109 days of racing. Collectively, they wagered $146.8 million for a daily average handle of $1.35 million. By 1999, attendance at 109 race days was 357,500, with total wagering on the live races of $36 million, a daily average of $330,000. The figures for 2000 were worse.

In the standardbred sector - harness racing at

Cloverdale Raceway (now Fraser Downs) and Sandown Park - 1982 was also a banner year. There were 191 race days between the two tracks, a combined attendance of over 500,000 and a total handle on live racing of about $75 million. Cloverdale's average handle was $475,000 per day and Sandown did $186,000. The two tracks combined for about 115 days in 1999, attendance of 180,000, and a total live handle of about $15.2 million. Fraser Downs' daily live handle was $157,000 in 1999 while Sandown had dropped below $20,000 per day. (This stagnation has been in the face of the meteoric growth of casinos and lotteries, indicating that the gaming market is there, but it has moved.)

Minoru Park in 1912

If the figures are inflation adjusted, using the Consumer Price Index (CPI) as a guide, the result is quite simply staggering. Measured in 1981 dollars, the average daily live handle at Hastings Park has fallen from $1.35 million to $174,570 in 1999 and the decline has continued since. The Fraser Downs 1999 average daily pari-mutuel handle on live racing ($157,000), represents $83,053 in 1981 dollars.

An ambulance must be in attendance at all sanctioned race meets

These figures are somewhat misleading because they do not reflect the extraordinary move to simulcast wagering, the opportunity to watch on television monitors races beamed in from across Canada, around North America and as far away as Hong Kong and Australia. Since 1995 a network of teletheatres have brought horse racing and pari-mutuel wagering to as many as 28 B.C. communities.

The total British Columbia industry - live racing, imported simulcasts and TBC Teletheatres - achieves an impressive total pari-mutuel activity of about $225 million a year, but 75-80 per cent of this is currently on simulcast races, not the live product. Simulcasting has been a blessing to the industry since the early 1990s, adding desperately needed cash flow to assist purses and operations and the world trend demonstrates how much it is welcomed by fans, but it must be accompanied by unprecedented efforts to promote the superiority of the live performance.

The blunt reality is that more than $220 million wagered entirely on live racing in 1982 compares to $225 million on a live and simulcast blend in the current era. In 1981 dollars, today's total handle is just $119 million and the more valuable live racing product represents just 25 per cent of those deflated numbers.

OBSERVATION

It must be emphasized that population has increased by 50 per cent since 1982 and inflation increased the cost of doing business. According to the Consumer Price Index, the 1999 dollar was worth 58.6% of its 1982 value. A shrinking audience despite urban growth, and stand-pat revenue levels achieved only through extraordinary and less profitable new channels, have been a prescription for disaster.

The Pacific Racing Association, operators of Hastings Park, are surviving but unable to adequately manage their government guaranteed debt. Despite an influx of new funds from the rebated tax, some of it dedicated to the debt scenario, the PRA expected to lose in excess of $800,000 on operations during 2000. The privately owned Orangeville Raceway Ltd., operators of Fraser Downs and Sandown Park, report that their bottom line remains in the black only through severe economies in

recent years and genuine sacrifices from a dedicated staff. The equity value of this business has plummeted as precipitously as Hastings Park's deficit and debt picture has grown.

It is the live racing that creates an industry rather than merely a business. Breeding, raising, training, feeding, equipping, racing and selling horses is a powerful generator of economic activity. Managing and maintaining the track complexes and delivering a vast range of hospitality, entertainment and wagering services generates high employment. Every racing dollar goes through many hands. No other form of sports activity involves so many people to conduct such a basic competition. No other form of gambling requires such labour-intensive processes or such a variety of products.

Harness racing at Hastings Park 1912

Statistics involving the B.C. breeding industry, number of foals, yearling prices and the amount invested in bloodstock by an ever-decreasing community of owners, paints a bleak picture. A startling thoroughbred number is that there were 4,000 fewer horses starting races in 1999 than what was the case a decade earlier. This is a result of a shorter season, fewer race cards per week and small fields in too many races. Small fields discourage fan interest and pari-mutuel wagering.

In the standardbred sector, high purses at even the smallest tracks in Ontario started an exodus from B.C. in 1998. Many of the best drivers, trainers and horses have been lost to Ontario and top drivers - fan favourites - have also moved to California. A detailed discussion of the horse population and related issues is contained in a later section.

The mile track and the PRA

The Hastings Park course has tight turns and an extremely short homestretch. Referred to in the trade as a "bullring," the track is hard on the horses. Tremendous improvements have been made to the track surface, but a poor foundation means continuous efforts to maintain optimum safety for both horses and riders. A disproportionate number of races on every race card are 6.5 furlongs or $1^{1}/_{16}$ miles and the long stretch runs of Santa Anita, Woodbine and other tracks featured on simulcasts, simply emphasize in the eyes of B..C. fans the inadequacy of what we have here.

It is an old story. Both Brighouse and Lansdowne in Richmond were beautiful one mile tracks. Jockeys said that Lansdowne had a gentle "bounce" to it that seemed to propel the runners to comfortable top performances. The consolidation at Exhibition Park turned out to be the right business decision for the 1960s, but from the beginning, the sacrifice was the track itself.

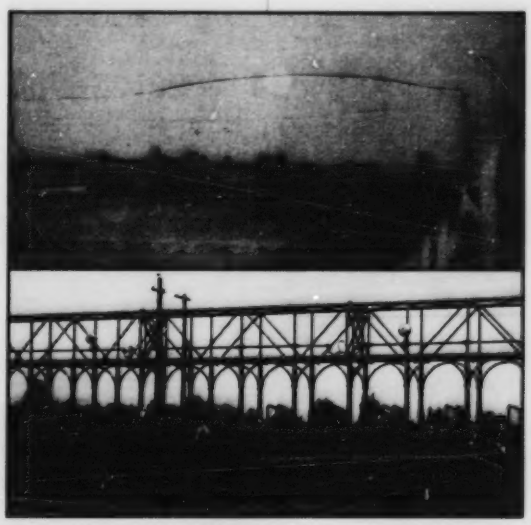
In 1981, then B.C. Attorney-General Brian Smith, now a member of this committee, but then the minister responsible for horse racing, delivered a speech to Racetracks Canada in which he put forward a vision that Vancouver might become the home of "Santa Anita North." He emphasized the urgent need for a one-mile thoroughbred track, rather than the 5/8ths mile circuit at Exhibition Park. He was widely cheered at the time, but this became just the starting point for 20 years of frustration and debate.

Following Brian Smith's call for action, the late Erwin Swangard, president of the Pacific National Exhibition, commissioned engineers to plan an extension for the track. They came up with a scheme for a mile surface with one corner built high on a ramp in the air over McGill Street, utilizing techniques now commonplace in highway cloverleaf design.

Smith's efforts ultimately led to an important task force chaired by respected Vancouver Island businessman Mohan Jawl, a horse owner and breeder. The Jawl report recommended a world class track complex on a new site, possibly run by a nonprofit society. The report was sufficiently impressive that the BCRC, then chaired by Robert Bonner QC, issued a Request for Proposals in 1990.

The B.C. Jockey Club, operators of Exhibition Park, chose not to make a proposal. The president, Jack Diamond, pointed out the uncertainty of the business climate, the growing lottery and casino competition and the declining economy of horse racing in general. He suggested an investment of $100 million was not supportable. Instead, his company promised that if the lease at the PNE were to be extended, it would invest in substantial improvements.

Three bids were received by the Bonner Commission. One was rejected as a stock market promotion with insufficient equity. The second was taken seriously. It was a proposal by a group of highly respected B.C. horsemen to form a nonprofit society and lease provincial government land, where they would build and operate a new track complex. This proposal required favourable terms on Crown land, infrastructure and property zoning that would achieve profit on ancillary commercial development. The Bonner Commission, despite its respect for the principals, also turned this proposal down. Bonner said at the time that racing should not depend upon government-guaranteed debt and, if possible, the sport should be run by people who invest in it.



Prior to the invention of the thoroughbred starting gate, horses went from a standing start (shown at Minoru Park). An early gate is also shown

Only one respondent met that criteria. The winning proposal was put forward by Western Delta Lands, a partnership between the operators of Grouse Mountain Resorts and Hong Kong investors. They envisaged a $100 million plus development at Burns Bog. Initially, this was approved by both the province and Delta. Following the change of government in 1991, a small group of thoroughbred horsemen expressed their concerns to the new government and argued that an association of B.C. horsemen could more effectively serve the interests of the industry. Amid considerable controversy, the government overturned the deal with the Grouse Mountain/Hong Kong group.

It was possible and perhaps even probable that the Burns Bog plan would have failed on its own. While all necessary interim approvals had been obtained, subsequent history surrounding the bog indicates that an environmental controversy likely would have occurred. There were also transportation concerns at the level of the Greater Vancouver Regional District.

Despite protests from the Canadian and Hong Kong partners of Western Delta Lands, the B.C. government created the structure under which the Pacific Racing Association was born. It began as a Crown Corporation with a $30 million potential line of credit. Promises filled the air: buying out the B.C. Jockey Club, repairing the existing track and lengthening it to 7/8th of a mile, and rebuilding the stables. The heady dialogue of the day envisaged that operating profits would pave the way to a new miletrack complex. But there was a hitch to the $30 million. The PRA was handed a portion of the parimutuel handle (part of the HRIF fund) that had been offered to those who had proposed a new mile track, but no deficit would be permitted. They could borrow only what they could service and, as a Crown Corporation, they fell under a complicated set of legislative and bureaucratic procedures that were expensive to satisfy.

The PRA purchased the assets of the B.C. Jockey Club, repatriated the name Hastings Park Racecourse, and opened for business in 1994. Substantial investment was made in efforts to make the track safer for horses and every aspect of the facility experienced by fans was improved.

But the PRA business plan soon had to separate the vision of its creators from the daily reality. Under the chairmanship of Mohan Jawl, it was impressed upon government that the Crown Corporation model implied

major provincial commitment to develop an industry. If this was not to be forthcoming, then the reality was a "non-profit association" arms-length from government. This was achieved. The Crown Corporation, the myth of $30 million capitalization and many of the ambitions disappeared almost overnight.

From the beginning the PRA was thought to be transitional, yet no one forecast the financial disappointment that would follow and the inability to proceed with all of the proposed Hastings Park improvements. The B.C. economy in the 1990s, particularly the financial crisis in Asia so closely linked to this province, brought uncertainty. Debt servicing costs, maintenance of decaying facilities and the high operating expenses at the PNE location conspired against fiscal success. Meanwhile, the growth of lotteries and casinos was relentless, each year a tougher competitive arena than the one before.

Racing at Richmond's Brighouse Park

Coronation Day, 1953, at Lansdowne Park. The overflow crowd had to be accommodated in the infield.

Leaders within the thoroughbred sector and the board of directors of the PRA are now united in attempts to achieve financial self-sufficiency, freeing government from liability.

Experience Elsewhere

The American situation shows that the most celebrated racetracks and the largest corporate entities can survive the gaming onslaught. Renowned tracks such as Belmont, Aqueduct, Saratoga, the Meadowlands, Churchill Downs, Gulfstream, Calder, Del Mar, Hollywood and Santa Anita build upon committed affluent horse owners, corporate partners, a highly professional off-track betting network, a celebrity status, television attention and important races.

Yet many of these, facing financial pressure, have merged into consolidated new ownership.

- Magna Entertainment, led by Canadian Frank Stronach, has acquired Santa Anita (Los Angeles), Bay Meadows and Golden Gate Fields (San Francisco), Gulfstream (Florida), Thistledown (Ohio), Remington Park (Oklahoma) and Great Lakes Downs (Michigan). Magna is actively engaged in negotiations for several other racing centres.
- Churchill Downs of Louisville, Kentucky, also owns Ellis Park (Kentucky), Calder (Florida), Hollywood Park (Los Angeles) and Hoosier Park (Indiana). A merger with Chicago's beautiful Arlington Park is in the final stages, and Churchill Downs state that several other possible acquisitions are being considered.

But the damage done by lottery and casino competition has severely wounded or killed many dozens of racetracks with business volumes the size of Hastings, Fraser Downs and smaller. Some are gone. Others are in desperate shape, looking for owners or new financing. Those that have recovered have done so because of permission to have slot machines, or some other form of sharing in state-wide gaming revenue.

Examples are many. Prairie Downs, near Des Moines, Iowa, was bankrupt and closed in 1991. The addition of a casino, including slots, in 1995 turned the venture into a thoroughbred success story. Purses were $1 million in 1994. They were $14 million in 1999.

New Mexico's Sunland Park, SunRay Park, The Downs at Albuquerque and Ruidoso Downs are setting records in every area since slots were introduced in 1998. The most obvious benefit has been a vibrant breeding industry.

Charles Town in West Virginia was near death in 1997. But the advent of VLTs (Video Lottery Terminals) has

generated economic health, high purses, quality racing and a North American audience far greater than the population of the town and surrounding counties. The track netted $21.5 million in its first year. Mountaineer Park, also in West Virginia had been ridiculed as the "home of the $1,500 claimer" before VLTs. A year after their introduction the minimum claimer was $4,000.

Delaware is a stunning success story. The state's three tracks Delaware Park, Dover Downs and Harrington Raceway were limping toward extinction, and reminded sports fans that they had lost one of the most celebrated harness tracks in the world, Brandywine, near Wilmington, which went bankrupt during the late 1980s. Delaware approved 2,000 VLTs per track in 1998-6,000 in total. In their first year of operation the machines earned $376.5 million, of which $120.2 million went to the State, $42.1 million into purses and $185.6 million to the operators, which paid all of the capital and operating costs of the installations. Purses have soared, breeding is at unprecedented levels and there are too many horses for the number of tracks and races.

There are many more such stories.

Hasting Park during the 1950s

Alberta

Five-years ago it was believed by many in the Canadian industry that Alberta would take a leadership position in the development of the horse racing sport. A Royal Commission led to complete industry restructuring, an elimination of all pari-mutuel tax and permission to install slot machines. Limited numbers of slots were placed at Northlands Park in Edmonton and at the track in Lethbridge. Traditional regulatory approaches were replaced by the Alberta Racing Corporation (ARC), to be financed by the industry, operating on business principles, totally detached from government. The sole government role was to be an appeals tribunal, in the event that the industry's self-regulation generated disputes.

Slot machines and other gaming devices at Northlands Park led to substantial clubhouse and fan service improvements. At first, purses increased. At Stampede Park in Calgary, where the landlord is the management of the Stampede association, slots were not installed within the track complex, but they are just across the grounds in a casino. Not enough of this revenue has gone to benefit the horsemen.

The entire industry in Alberta came close of collapse at the end of 2000, but emergency talks among all of the parties forged a two-year agreement. This maintains the status quo in the thoroughbred sector, but sharply reduces the number of standardbred race dates at Northlands Park in Edmonton. Northlands protested that a loss of $1.3 million on the standardbred meet last year would have become $1.5 million this year if changes did not take place. They say their backstretch, ill-equipped for winter racing, is too costly.

Harness racing in 2001 in Edmonton was reduced from 95 days in 2000 to a 53-day spring meet, but with much higher purses. By shortening the season and eliminating many stakes races, the average daily purse total nearly doubled to $100,000. There will be no fall or winter standardbred racing at Northlands. Calgary will begin a 53-date harness season on July 27. The thoroughbred sector is basically unchanged in Alberta, with 70-days at Northlands (summer-fall) and 43 days at Calgary's Stampede Park (spring)

Contrary to external appearances, the horse racing industry in Alberta was not given much of an opportunity to benefit from slot machines. Of 10,234 machines around the province, only 289 are at racetracks: 227 at

Northlands Park and 62 at Whoop Up Downs in Lethbridge. And the split at the track does little for horsemen. The machines at Northlands earned management $4.3 million in 1999, but only $1.9 million of that went for the benefit of horse racing. The Alberta formula requires 85% of slot machine profits to go to the Alberta Gaming and Lottery Corporation.

The contrast with Ontario is stark: half of that province's 18,000 slot machines are at race tracks. The profit is split three ways between the Ontario Lottery Corporation, the local municipality and the host racetrack. Had an Ontario track received $4 million from 227 machines, 100% of it would have gone to racing operations, purses and industry interests. Under those circumstances, there would have been no racing losses at Northlands Park.

The current Hastings Park facility under construction in 1964

An Alberta court recently ruled that the amount of the slot machine revenue retained by racetracks in that province was unlawful and the formula for future sharing proposes much less money. This change has led to the cancellation of Resortport, the proposed $65 million joint breed track planned for Calgary. Core financing for this venture was to be enabled by 500 slot machines.

Alberta's horsemen - particularly the standardbred sector - are very concerned about the future. A two-year reprieve is no encouragement to breeders or sector development. There have been indications of support from government, most notably a readjustment of the approach to slot machines and how revenues are directed.

A beneficiary of Alberta's problems has been B.C.'s Fraser Downs. A large contingent of Alberta's leading harness racing drivers and trainers, and horses have brought with them, greatly enhanced the winter 2001 race meet here and it is anticipated that the lack of future winter racing in the neighbour province could make this a growing benefit.

New Zealand

This country of fewer than 4 million people has a vibrant horse racing culture which attracted considerable attention during the mid-1990s in British Columbia. Their three racing sports - thoroughbred, standardbred and greyhounds - were suffering badly at the outset of the 1990s.

A national initiative in 1995 created the "Come Racing" program, an unprecedented merger of the three racing sectors in promotion, customer relations, facility renovations, food service and general modernization of the racing brand, that achieved dramatic results. It inspired emulators elsewhere in the world, including B.C., leading to more co-operation between the breeds.

The committee decided to review the New Zealand experience to determine if their success has been maintained. Here are some of the findings:

- Racing suffers along with the national economy. The New Zealand dollar is two-thirds the value of the Canadian dollar.
- There are 14,300 gaming machines at 2,200 sites in New Zealand, including racetracks.
- Total race wagering (horse breeds, dogs) was $NZ 1.1 billion in 1998, up from $NZ 910 million in 1994. Of this, only $NZ 96 million was wagered on live races at 79 thoroughbred, 55 harness and nine greyhound racing clubs.
- 5,579 Australian races were imported for New Zealand TV audiences during 1998/99.
- There are 510 TAB outlets (Totalisator Agency Board) in New Zealand and six telephone account centres. Wagering on other sports has been officially approved in recent years and is growing slowly. All TAB profits are returned to the racing clubs.
- Purses have held strong despite the tough economy. About $NZ 32 million in the thoroughbred sector alone in 1998/99.
- Audiences at live venues have dropped marginally, but TAB centres and televised races are growing in number and more convenient for everyone.

- New Zealand and Australian races are televised to every home via Trackside, a national network, accompanied by telephone account wagering.
- A new Internet wagering facility almost immediately evolved wagering of $NZ 400,000 per week.
- 50,000 New Zealanders are members of horse racing clubs, some of which have only one or two race cards a year. But all of these days are festive affairs with marquee tents, corporate promotions, fun fairs and often local business holidays.

OBSERVATION

THERE IS NO STATISTIC IN NEW ZEALAND THAT MORE POWERFULLY DEMONSTRATES THE VALUE OF A HORSE RACING INDUSTRY, AND THE CO-OPERATIVE PUBLIC-PRIVATE PARTNERSHIPS NECESSARY TO MAKE IT THRIVE, THAN THE FACT THAT THIS SMALL COUNTRY (POPULATION ONLY SLIGHTLY LARGER THAN B.C.) HAS A THRIVING BREEDING INDUSTRY THAT EXPORTS $NZ 100 MILLION WORTH OF RACE HORSES EACH YEAR, IN ADDITION TO THE IMPORTANT ECONOMIC IMPACT THE INDUSTRY HAS ON DOMESTIC STATISTICS.

In the course of our research, we uncovered an interesting definition:

OBSERVATION

THE RACING ACT OF NEW ZEALAND INSTRUCTS ITS REGULATORY AGENCY, THE RACING INDUSTRY BOARD TO DEVELOP POLICIES CONDUCIVE TO "THE ECONOMIC DEVELOPMENT AND FINANCIAL WELFARE OF RACING" AND TO THE "FINANCIAL SECURITY" OF THOSE "WHOSE LIVELIHOODS ARE DERIVED FROM OR IN CONNECTION WITH RACING." THE RIB'S POLICIES ARE ALSO REQUIRED TO BE CONDUCIVE TO THE "PUBLIC INTEREST IN MATTERS RELATING TO RACING," INCLUDING THE "MAINTENANCE AND IMPROVEMENT OF THE STANDARD OF FACILITIES AND AMENITIES FOR THE BENEFIT OF THE PUBLIC."

Australia

Horse racing in Australia is a major economic activity that contributes to Gross Domestic Product, jobs, and government revenue. It is also Australia's original national sport, of immense cultural significance, an integral component of rural life, and with urban tracks of international renown.

It should be noted that the Australian population is 18.5 million, about two-thirds that of Canada. The Australia dollar is presently worth about 85 cents to the Canadian dollar.

Thoroughbred horse racing is the second most popular sport in Australia, trailing only Australian Rules Football (rugby). Approximately 1.8 million, or 11.8% of the population aged 15 and over, visited the track in 1999. Horse racing is more popular than traditional rugby or cricket. Harness racing is the country's seventh largest sport, drawing 534,800 spectators or 3.6% of the population.

Consider these 1997-98 numbers:

- The only country with more racehorses than Australia (32,020) is the United States (64,625)
- Only the United States (57,832) and Japan (26,892) run more races than Australia (22,792).
- Australian races are the third most lucrative ($266 million) in terms of prize money with the United States leading ($1.25 billion), followed by Japan ($1.24 billion).

And these interesting observations:

- During the period 1986/87 – 1998/99 there was an increase in prize money of 130%. In the past five years alone prize money has risen by over 40%.
- From 1990 to 1999 off-course thoroughbred TAB wagering turnover increased from $5.46 billion to $6.67 billion. On-course turnover has fluctuated from $638 million in 1989/90 to a peak of $823 million in 1993/94. This has declined steadily to $575 million by 1998/99.
- These figures do not include legal bookmakers, a colourful dynamic at any racing venue in England or Australia, and a ubiquitous presence at shops throughout the countries' commercial areas. Bookmakers give fixed odds and compete with one another to earn fans, often with better deals than the competition.
- Total thoroughbred wagering turnover including bookmakers has increased from $8.35 billion in 1990 to $8.68 billion in 1998/99.
- Attendance is still high, but many choose to utilize off-track betting services.
- Total gaming in Australia (including casinos and lotteries) increased from $27.49 billion in 1989/90 to $94.55 billion in 1997/98.
- All of the major racetrack operations have slot machines and other gaming devices.

Australia is one of the horse racing world's most sophisticated television and interactive wagering markets. Sky Racing is one of the most watched pay TV channels with an average viewing audience of over 400,000 per week. Regular customers can obtain devices to punch in their wagers electronically from their living room, while watching horse races from different parts of the country on home television.

Ontario

The renaissance in Ontario began in 1996 with the elimination of the tax on the gross pari-mutuel handle. That province extracts the cost of the CPMA and its racing commission off the top of the pari-mutuel take, and then basically splits the rest equally between the operator and horsemen's interests, including purses. But a new management era began at the Ontario Jockey Club at the same time.

When David Willmot, son of a prominent thoroughbred family and a member of the OJC Board of Directors, became CEO, the organization was facing possible default on tens of millions of debt.

Under new leadership, the OJC made some dramatic moves:

- The customer was put first. Comprehensive research studied the attitudes and ideas of fans, lapsed fans and potential fans.
- Major renovations to the racing plant revitalized Woodbine Raceway.
- "Old Woodbine" - Greenwood Raceway - was closed for live racing. It had been Canada's leading harness racing track and host for shorter winter thoroughbred meets.
- Mohawk Raceway was reinforced and cosmetically improved, but plans went forward to make Woodbine a joint breed complex.
- Woodbine's E.P. Taylor Turf Course was constructed around the perimeter of the dirt thoroughbred track. It is now one of the longest and most admired in the world.
- A 7/8ths mile harness track was constructed inside the thoroughbred dirt course, where the old turf layout used to be.
- Free parking was one of a series of gestures toward becoming more consumer-friendly, but a reduction of the take from the pari-mutuel handle was more tangible evidence to loyal customers that a new era had arrived.
- Relations between the OJC and Ontario's harness tracks (about 18 in total) were greatly improved. The Toronto management had usually been seen in the province as monopolistic and arrogant. Not only did Willmot break down most of these barriers, he ultimately was elected president of Harness Tracks of America, a continent-wide organization.
- The executive team was restructured, adding more contemporary business and sports management skills.
- The "Champions" network of off-track wagering sites was reassessed, redesigned and enhanced. Some of the poorer operators were removed from the system.
- The 1996 Breeders Cup became the seminal moment of a new era in Ontario racing, not just because of the world promotion it brought, but because it very nearly did not happen. A long, difficult labour negotiation imperilled the event, as unions fought to resist changes and economies being imposed by new management. Tension mounted before staff took seriously a threat by Willmot to cancel the Breeders Cup, but it became a great event for all and the reorganization proceeded at high speed after it was over.

One of the most famous jockeys in the history of the sport, Johnny Longden, shakes hands with B.C. Premier W.A.C. Bennett, opening day of the new Exhibition Park race complex in 1965. Jack Diamond looks on. Longden scored his 6,000th race vistory on the Vancouver track, a world record at the time. The new record is now held by Lafit Pincay Jr. of Los Angeles, who has over 9,000 wins.

This set the foundation for the advent of slot machines in 1999, but prior to that development, there had been a steady succession of purse increases for both harness and thoroughbred racing.

The Ontario Horse Racing Industry Association, the Ontario Jockey Club and Fort Erie Race Track all suffered as a result of the province's destination casinos and slot machines. Fort Erie had Casino Niagara under its nose. Windsor Raceway, broadsided by the large new Windsor Casino, just about went under. The small track at Barrie was no match for Casino Rama at Orillia.

This 1967 Exhibition Park crowd is a stark reminder of how popular the sport used to be

The horse industry in Ontario with its substantial breeding, training and agricultural components, is an influential voice in many rural constituencies and that voice eventually became cacophonous. Finally, they won the right to have slot machines at racetracks. Slot machine casinos of 100 to 1,700 machines have revitalized every track permitted by local government to have them, creating new fans, higher purses, better racing, capital improvements, new restaurants, and substantial profit for track operators, horsemen, the Ontario Lottery Corporation and local government, with virtually no complaints. In fact, politicians in the Legislature and all over Ontario are quick to advise that they played a role in this remarkable development.

From substantial business losses in 1995 and 1996, the OJC was profitable by 1997. They have never looked back. Wagering at Woodbine, Mohawk and the teletheatres totalled $736 million in 1998. It grew to $795 million in 1999 and it is expected to top $850 million in 2000.

Woodbine and Mohawk today present some of the finest horse racing in the world. It is so good that the many horses that used to earn their keep on the big tracks can no longer compete. As harness horses move to the tracks in the smaller centres, where purses have risen to former Greenwood/Woodbine/Mohawk levels, fans everywhere are sharing the excitement. Small Ontario towns such as Sarnia and Peterborough, can outclass Vancouver in terms of purses.

More revenue at each venue has expanded advertising budgets, creating leverage for more media attention. The Ontario breeding industry, which has always been strong, is amidst a quantum leap. Employment is growing in every sector of the Ontario economy remotely connected with horse racing.

Economic Impact

The ultimate value of horse racing to society, as opposed to other forms of gambling, is that it creates thousands of highly varied jobs. Farms, ranches, transport companies, a myriad of suppliers, and dozens of other businesses share small pieces of the pie.

The Horse Racing Alliance of B.C. produced a report in 1997 which argued that the economic impact of horse racing in British Columbia was more than $550 million a year, with a direct payroll of $36.5 million per year. The report stated that the sport - directly and indirectly - represented 12,561 full-time equivalent jobs. More recent studies by other agencies, perhaps reflecting

industry decline or more substantial investment in methodology, pegged the economic impact at $350 million with 7,500 direct and indirect jobs.

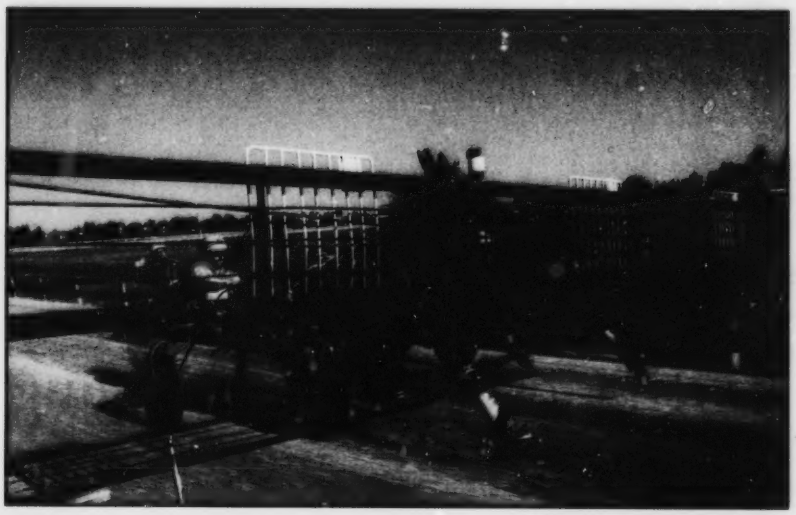
Irrespective of precise numbers, there is no doubting that this is a substantial industry, in stark contrast to the ephemeral cash machines represented by other gaming pursuits.

A study by the B.C. Ministry of Agriculture in 1998 determined that the impact of the equine sector of the provincial economy - all matters related to horses - was $771 million per year. This study said that there are 37,000 horse owners and 90,000 horses in B.C. They occupy 158,000 acres of land and employ 10,000 people.

PRIVATE SECTOR SOLUTIONS

OBSERVATION

HORSE RACING HAS NEVER RECEIVED THE ECONOMIC DEVELOPMENT SUPPORT AVAILABLE TO OTHER INDUSTRIES. SUCCESSIVE GOVERNMENTS HAVE FOCUSED ONLY UPON TAXATION, REGULATION AND ENFORCEMENT. IT MUST BE UNDERSTOOD THAT RECENT GOVERNMENT RELEASES ABOUT "REBATING" FUNDS TO THE INDUSTRY SIMPLY MEAN THE CANCELLATION OF A TAX ON PARI-MUTUEL REVENUE; THE END OF A DISCRIMINATORY PENALTY UNIQUE TO OUR SPORT, AND NOT A SUBSIDY OF ANY DESCRIPTION.



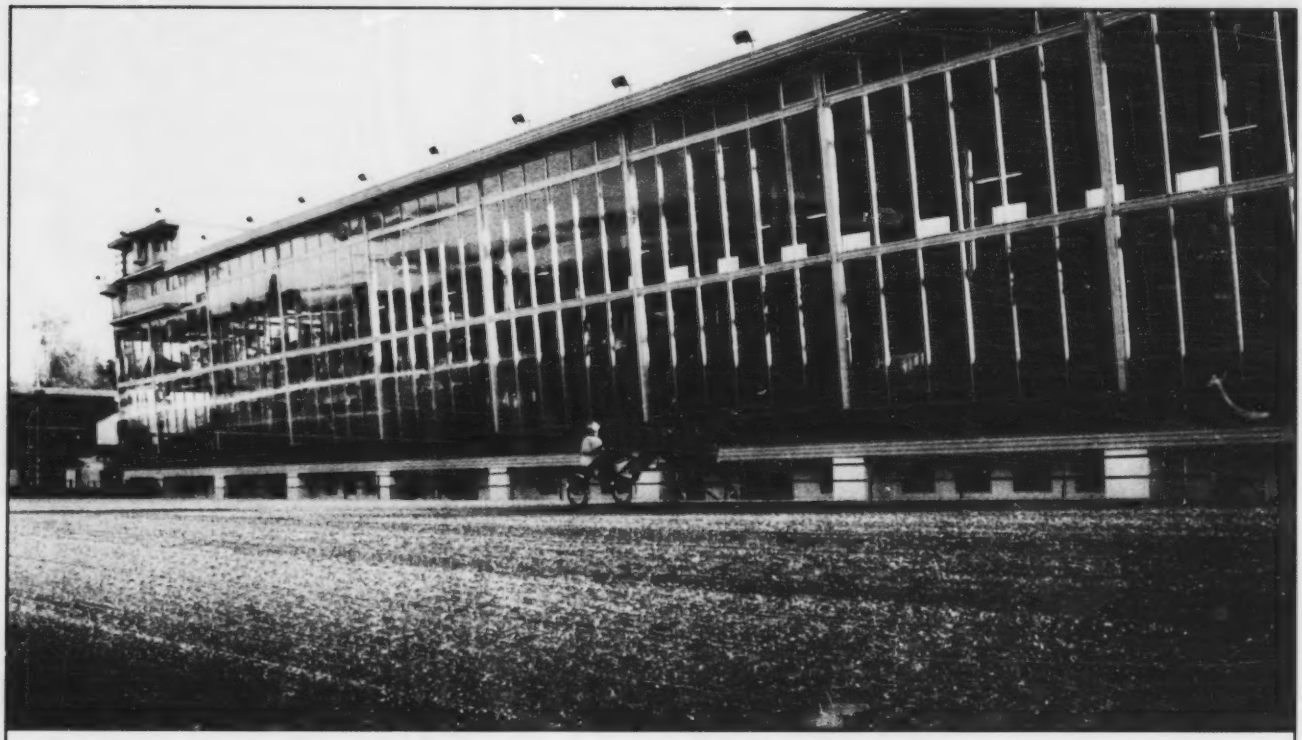
STATEMENT OF PRINCIPLE

THE GOAL IN ALL HORSE RACING ISSUES MUST BE SELF-SUFFICIENCY, INCLUDING CONDITIONS WHICH WOULD ENCOURAGE MAJOR PRIVATE SECTOR INVESTMENT. THE INTEGRITY OF HORSE RACING SHOULD NOT INVITE POLITICAL CONTROVERSY BY ASKING GOVERNMENT TO FINANCE WHAT IS ESSENTIALLY SPORT AND RECREATION AT THE EXPENSE OF SCHOOLS, HOSPITALS AND VITAL PUBLIC SERVICES.

RECOMMENDATIONS

GOVERNMENT MUST RECOGNIZE THE IMPORTANCE AND ECONOMIC IMPACT OF HORSE RACING AND OFFER THE INDUSTRY NOT SUBSIDY, BUT PRACTICAL SUPPORT FROM VARIOUS MINISTRIES AND PROGRAMS: AGRICULTURE, ECONOMIC DEVELOPMENT, FINANCE, TOURISM, LOTTERIES AND GAMING POLICY. IN TERMS OF NEW FACILITIES, GOVERNMENT COULD PLAY AN INVALUABLE ROLE IN ZONING AND INFRASTRUCTURE.

GOVERNMENT MUST HELP CREATE THE FRAMEWORK FOR NEW INVESTMENT IN THE B.C. HORSE RACING INDUSTRY.



II. Governance: managing the industry

The diverse interests which must co-operate to achieve a worthwhile horse racing business presents both its most admirable attribute and almost impossible managerial challenges. The wealthiest, most powerful horse owners become utterly dependent upon trainers, drivers, jockeys, grooms, veterinarians, those who invest in facilities and regulators. It surprises no one in a track's backstretch to learn that a prominent industrialist was seen having a very serious private conversation with a groom earning minimum wage. The diversity of interests ensures a broad economic impact from any investment, but it also sets up competition for every dollar, not merely those offered as purses for races.

Here are the principal agencies and their roles within the British Columbia horse racing business:

- ***Canadian pari-mutuel Agency (CPMA)*** - this agency, under the federal Department of Agriculture, regulates pari-mutuel activity, and the contractors that operate machines and backup technology at all Canadian racetracks. In the process, the CPMA monitors compliance with applicable federal Criminal Code sections related to gambling. Federal personnel also operate the "test barn" at racetracks, sampling urine (and occasionally blood) of race winners and other runners selected at random. Samples are contracted to a private lab for testing.
- ***"The Minister Responsible"*** for horse racing becomes a part-time pursuit for a busy minister of government. Over the years in B.C. it has variously reported through the Attorney-General, the Solicitor General, the Minister of Agriculture, Finance, Economic Development and, in the current structure, the Minister of Labour.
- ***British Columbia Racing Commission*** - the BCRC sanctions race meets, awards dates to accredited operators and monitors the conduct of races. Judges and stewards supervise the licensing of all personnel, their conduct and the races themselves. Investigations of alleged impropriety and the control of substance abuse are among the responsibilities.
- ***Gaming Policy Secretariat (GPS)***, B.C. Ministry of Labour - this relatively new office co-ordinates with the industry all matters relating to the broader gaming environment. An advisory committee on gaming has all sectors represented.
- ***Pacific Racing Association (PRA)*** - this is the nonprofit society that operates Hastings Park.
- ***Orangeville Raceway Ltd.*** - the private company that operates Fraser Downs, Sandown Park and related enterprises.

- ***Interior Racing Association*** - the volunteer organization that coordinates horse racing at Kamloops, Vernon, Osoyoos and Princeton.
- Associations representing diversified activity, including quarter horse and Arabian horse racing.
- ***Horsemen's Benevolent and Protective Association of B.C. (HBPA)*** - the venerable and respected North American organization that represents the interests of horse owners and trainers.
- ***Canadian Thoroughbred Horse Society, B.C. Division (CTHS)*** - the breeders' organization that also holds yearling sales and helps promote important B.C. bred stakes races.
- ***B.C. Standardbred Association (BCSA)*** is the harness racing equivalent of the HBPA.
- ***B.C. Standardbred Breeders Society (BCSBS)*** is the harness racing equivalent of the CTHS.
- ***Jockeys Benefit Association*** (Thoroughbred).
- ***Backstretch Workers Society*** (Hastings Park) represents the interests of grooms, hot walkers and pony persons.
- ***Horse Racing Alliance of B.C.*** - an organization formed in 1996 as a co-operative effort among thoroughbred and standardbred operators and horsemen's associations. It has done some important research into economic impact and slot machines, and has been the principal lobbying arm of the industry with respect to the pari-mutuel taxation and slot machine issues.
- ***TBC Teletheatres*** operates as many as 28 simulcast and pari-mutuel centres around the province. It is owned 50-50 by the thoroughbred and standardbred sectors and the four-member Board of Directors consists of the PRA, HBPA, Orangeville Raceway Ltd. and BCSA.
- ***The Winners Foundation*** - offers substance abuse services in the backstretch of B.C. tracks.
- ***The Cloverdale Fair Board/City of Surrey*** is the landlord for horse racing at Fraser Downs, with certain areas of influence over the business, including parking.
- ***The Pacific National Exhibition/City of Vancouver*** has even greater impact on the life and operations of thoroughbred racing. The high cost of parking, trade union considerations and the complexities of the annual summer fair make it an often difficult location. Increasingly, stakeholders groups representing Hastings-Sunrise ratepayers and the Hastings Park Conservancy Society play a role in decision-making and long-term planning.

It gets far more complicated than that. BCRC and private veterinarians liaise with each other in the backstretch concerning health issues. First aid and medical staff on each track monitor human health and sanitation issues. Hastings Park is unionized and public sector unions involved with other venues also become part of many consultations, Workers Compensation issues and related matters.

Each of the tracks and horsemen's associations must network around the world with respect to the import and export of horses, breeding criteria, information, simulcasting alliances and the resulting pari-mutuel cash exchanges. There are several national and international associations and conferences.

CASH FLOW & SELF-SUFFICIENCY

The previous section emphasized that horse racing - wherever possible - must be either private sector or financially self-sufficient. Yet it also commented that government has traditionally just taxed and regulated the sport, not only the taxes assessed against every other business and individual, but extra taxes extracted from the pari-mutuel handle.

OBSERVATION

THE NEW ERA REQUIRES A BETTER PUBLIC-PRIVATE PARTNERSHIP.

The private sector will pay the bills. Government may be asked to assist with a long list of services within its power, which may include investment incentives, zoning, infrastructure, promotional supports, deregulation, and research. Within horse racing, as in other industries, there are new and marginal operations that may be future profit centres or which indirectly add value to a larger, more profitable enterprise.

Important examples of this might be the Interior Racing Association and Victoria's Sandown Park. Breeding and a thoroughbred horse racing culture remain exceptionally strong in the Okanagan, on Vancouver Island and elsewhere in B.C. despite the rarity of live racing opportunities. The health of the sport and its province-wide appeal would be greatly enhanced if there was more racing in more communities.

If Vancouver aspires to be "major league" in the jargon of other sports, there simply must be a "minor league." Sandown Park's thoroughbred days have long since vanished but one day there might be a case for bringing back a brief annual meet. Sandown's summer harness season gets leaner and leaner and the operator has clearly stated that unless slot machines are approved, the track will terminate live racing. Racing in the B.C. interior is possible only because of extraordinary investments of volunteer work, and a transfer of capital from the thoroughbred pari-mutuel handle at Hastings Park and from simulcasting.

Those attempting to strengthen other racing venues in B.C. should not be discouraged from seeking special government assistance, if a proper business case can be made for a public investment. Indirect revenues to government through new employment and other cash streams - sales, gas, property, corporate or personal income tax - can often exceed incentive financing. Government is always a beneficiary of an industry's economic growth and enhancements to local communities and agricultural suppliers.

A young Frank Stronach, now thoroughbred racing's most controversial executive, is shown at Exhibition Park in 1972. Alan Cuthbertson is in the saddle.

STATEMENT OF PRINCIPLE

THE FREE ENTERPRISE AND SELF-SUFFICIENCY PREROGATIVES OF HORSE RACING NEED NOT BE ABSOLUTE. IF A BUSINESS CASE CAN BE MADE (MEANING AN INDIRECT PAYBACK TO GOVERNMENT THROUGH NEW TAX REVENUES AND OTHER BENEFITS), HORSE RACING SHOULD BE ENTITLED TO THE SAME SUPPORT OFFERED OTHER ENTERPRISES. MARGINAL OPERATIONS AND NON-PROFIT SOCIETIES SUCH AS THE INTERIOR RACING ASSOCIATION SHOULD BE JUDGED ON THE BASIS OF HOW THEY ASSIST IN THE DEVELOPMENT OF THE INDUSTRY'S MORE PROFITABLE ELEMENTS.

SPLITTING THE TAKE: A PARI-MUTUEL STRATEGY

Horse racing revenues include admission fees, reserved seats, parking, programs, food and beverage, rentals of stable stalls and advertising. Horsemen and breeders engage in the sale of horses, pay stud fees and deal with tradesmen who sell goods and services.

Despite myriad forms of financial activity, the foundation of the racing industry is the pari-mutuel take. Off the top of the amount wagered on each bet the "take" is deducted, and the balance of the pool is divided up among the winners. Win, place and show wagers return over 83% to fans while exotic features may return only 74.2% to bettors.

Federal law puts a ceiling of 30.8% on the pari-mutuel take. Percentages vary between different jurisdictions and on different types of bets, but the basic principles apply. Historically, the government share of the pari-mutuel handle was 0.8 per cent to the CPMA and 7% to the provincial government. From this provincial total, the British Columbia Racing Commission was financed and the balance submitted to the treasury.

THE HRIF FUND

All this changed 20 years ago, when the government reduced its take to 3%, leaving 4% with the industry to operate the BCRC and to create the Horse Racing Improvement Fund (HRIF), which has been dedicated toward purses, research and facilities. The balance of the former 7% provincial take was rebated during 2000.

The HRIF fund brought a profound change to the role of the BCRC. The Commissioners became managers of a trust and conducted negotiations among the parties to determine how best these funds might be spent. The racing commission pays its own costs out of the 4%

HRIF fund, a portion that now is about 1% of the total pari-mutuel handle. This is debited 50-50 from the thoroughbred and standardbred sectors, a source of complaint from the standardbred side. They argue that all beneficial splits of revenue within the industry are pro-rated between the sectors, with 60-65% going to the thoroughbreds, and the same formula ought to apply to cost items. It is actually 1.5% of the standardbred handle but less than 1% of the thoroughbred handle. The BCRC has justified this with the claim that it costs just as much to supervise the standardbred sector as it does the thoroughbred.

The Research and Facilities portion of the HRIF money represented 0.5% of each sector's gross pari-mutuel handle. As part of the agreement forming the non-profit PRA at Hastings Park, this portion has flowed through to them since 1994. The expectation was that the funds would be used to pay down the government-supported debt that financed the purchase of the business from the B.C. Jockey Club in 1993 and to improve facilities for both fans and horsemen. A particular concern was the track itself and the backstretch. In recent years financial difficulties led to this money becoming part of Hastings Park general revenue, at first helping to service debt and finally just to pay the bills.

While the flow-through has occurred for the non-profit PRA, the harness racing side has had to present detailed business plans for BCRC approval before funds have been spent. The Commission's concern has been to ensure that this trust goes to enhance either the fan experience or the support infrastructure, rather than the bottom-line profit of a private company.

The HRIF fund has done a great deal of good work in both sectors of the industry and Fraser Downs, despite the frustrations, has publicly commended the Commission for assistance in lengthening the track, some backstretch improvements and the renovation of many facilities. Changes to the Horse Racing Tax Act during 2000 made it possible to move into purses, a surplus of funds that had built up in the Research and Facilities portion of the standardbred HRIF. The Commission approved an industry plan transferring some of this money into purses and breeders' supplements.

The 2000 legislative changes returned the final 3% of the pari-mutuel handle for the benefit of the industry. The new act required that funds (amount to be determined by the minister) be set aside for economic development. A ministerial directive also required that an Economic Development Committee be struck to formulate a long term plan and determine how these funds should be spent. In addition to the new committee, the commission expanded the advisory committees from each sector with a representative of the track operators. These two committees - standardbred and thoroughbred - develop plans and advise on the distribution of funds for grants, purses and breeders' supplements.

The 3% was expected to result in a further $3.3 million in 2000-2001 and, after consultation with both sectors, it was awarded as follows: $1 million for the economic development strategy, $800,000 to the standardbred sector (all purses), $700,000 toward the taxpayer-supported debt of the PRA, $180,000 directly to the PRA and $620,000 for thoroughbred purses and supplements.

Complexity, conflict and confusion

The preceding is little more than a hint of the complexity involved in the pari-mutuel split. The division of simulcasting profits varies from the live product. There is a different share of the benefits on imported signals for the sector of the B.C. industry that is "in season" and the one that is dark: Hastings from April to early

November and Fraser Downs from November through April. Yet more formulas and costs exist for the TBC teletheatre operations.

The BCRC, operators and horsemen go through a difficult annual negotiation to determine what is called the "overlap" - days when both sectors are operating at the same time, without enough business for either of them to do well. As a general rule, the horsemen try to get as many race days as possible and the operators oppose subsidizing any more losing days than necessary.

The Economic Development Committee received submissions from many stakeholders. These are contained in a companion publication to this report that is available through the BCRC office. One of these submissions was an interesting paper from Chuck Keeling, the General Manager of Fraser Downs, entitled *Crumbs Among the Pigeons.* Mr. Keeling had this to say:

> Your committee was given a twofold assignment: to evolve a long-term plan for the B.C. industry and, to get this process started, a budget of $1 million for each of the first two years.
>
> Obviously, the long term plan is your most important challenge and what those of us in the industry should focus upon most strongly. But that would be out of character for our industry. My guess is that every submission you receive will have more or less the same solution: "*Here's my long term plan - give the money to me.*" Everyone will focus on the $1 million and present arguments as to why they should get some if not all of it.
>
> Why are we so consistently placed in this demeaning posture? Why are we always like beggars on a street corner?
>
> The answer is the pari-mutuel split. Track operators, horsemen and breeders are all starved for funds. No element of the industry has sufficient funding to do what is necessary. Therefore, when any hint surfaces that new money might be available, a competition ensues.
>
> Standardbred competes with thoroughbred. Within each sector, operators and horsemen squabble. Among horsemen there is a tug-of-war between purses and breeders' supplements. The Interior Racing Association gets involved in some discussions.
>
> The villain of the story is the Horse Racing Improvement Fund, a well-meaning rebate to the racing industry, welcomed and heralded when it was created.
>
> Prior to this fund, the split was fairly simple. The two governments took their cut and the balance was divided between operators and horsemen. Each could make long-term plans without endless meetings, committees, competitions and applications for special funds.
>
> Each new source of funds is like bread crumbs cast among the pigeons. Those of us who direct horse racing institutions are responsible to directors and stakeholders. We owe it to them to compete for every dollar. We are not at fault. It is the system which is disastrously flawed.

Today's B.C. race callers, track announcers Dan Jukich (Hastings Park) and Rick Uppal (Fraser Downs, Sandown Park)

A NEW FORMULA

There has been considerable media coverage during the past few years about periodic negotiations for the sale of Fraser Downs and Sandown Park. More current discussions have indicated that a new owner may be on the horizon for the thoroughbred sector as well. The BCRC and the horsemen's associations have participated in some of this dialogue.

Central to all this discussion has been a change of formula with respect to the pari-mutuel split. The suggested model has been the way it is currently being done in Ontario. In that province, the federal and provincial regulators are financed off the top, and the rest of the funds are divided equally between the operator and the horsemen's interests (purses, breeders et. al.)

This same formula also applies in Ontario to the teletheatre operations. The OJC, owners of the *Champions* chain of teletheatres, pays 100 per cent of the cost of the business. The gross profit, after payoffs to winning bettors and commissions to the racetracks originating the televised signal, is split 50-50 with the horsemen.

In B.C., horsemen are equity partners in the TBC teletheatre chain, but their purses and supplements only receive a share of the "net" profit from pari-mutuel activity, after all costs of the TBC Teletheatre organization are covered. The difference between 50% of the gross pari-mutuel profit (Ontario) and the net (B.C.) is huge.

Teletheatres are discussed at length in the next section of this report.

OBSERVATION

THE CURRENT FORMULA FOR DIVIDING NET PARI-MUTUEL REVENUE IS OVERLY COMPLEX, WITH VARIOUS SPECIAL FUNDS, FORCING OPERATORS AND HORSEMEN'S ASSOCIATIONS TO INVEST EXTRAORDINARY AMOUNTS OF TIME IN CONSULTATION.

RECOMMENDATIONS

THE FORMULA WITH RESPECT TO THE PARI-MUTUEL SPLIT BETWEEN OPERATORS AND HORSEMEN'S INTERESTS SHOULD BE IDENTICAL FOR BOTH STANDARDBRED AND THOROUGHBRED SECTORS.

THE GROSS PARI-MUTUEL TAKEOUT IN B.C. SHOULD FIRST COVER THE COSTS OF THE CANADIAN PARI-MUTUEL AGENCY AND THE B.C. RACING COMMISSION (INCLUDING ECONOMIC DEVELOPMENT FUNDS AS DIRECTED BY THE MINISTER), AND THE BALANCE DIVIDED PRO-RATA BETWEEN EACH SECTOR AS DETERMINED BY SEPARATE NEGOTIATION, AND WITHIN EACH SECTOR, SHARED BETWEEN OPERATOR AND HORSEMEN'S INTERESTS.

BCRC SHOULD INSIST UPON CONSULTATION BETWEEN OPERATORS AND THEIR HORSEMEN ABOUT ALL ASPECTS OF BUSINESS AND PRODUCT DEVELOPMENT. HORSEMEN ARE IMPACTED BY CAPITAL IMPROVEMENTS AND CUSTOMER AMENITIES WITHIN THE OPERATORS' AREA OF RESPONSIBILITY, JUST AS MANAGEMENT HAS A CONSIDERABLE STAKE IN THE QUALITY OF THE RACING PRODUCT. SIMILARLY, CO-OPERATION BETWEEN THE TWO BREEDS AND RACING SECTORS IN B.C. IS THE ENVY OF MANY JURISDICTIONS AND IT MUST BE MAINTAINED.

THE FAN

A later section of this report discusses at length what must be done to determine the "horse racing brand" and to discover the needs of a modern market: the current fan, the lapsed fan and the new fan.

Yet at this stage of the report, when pari-mutuel sharing is the topic of discussion, it must be emphasized that tangible benefits should be awarded to the long-suffering and loyal supporters of what is being offered today. That is the way to say thank you. That is the way to say "please come back" to those who used to be customers.

RECOMMENDATION

AS A PUBLIC RELATIONS GESTURE - PART OF THE RESTRUCTURING OF PARI-MUTUEL FORMULAS AND THE IMPLEMENTATION OF ECONOMIC DEVELOPMENT STRATEGIES PROPOSED IN THIS REPORT - THE TAKEOUT FROM THE PARI-MUTUEL HANDLE MUST BE REDUCED, RETURNING MORE MONEY TO THE FANS.

SLOT MACHINES

No topic in the Canadian horse racing sport has been so thoroughly studied and discussed as the advent of casino gaming in society at large, the impact on racing and the need to fight fire with fire: to offer this option to racing fans.

It is not the veteran horsemen or pari-mutuel players who are being diverted to casinos. What is lured away is the discretionary dollar, the families and friends of regular customers and the potential new market. People with a sporting nature who would, as the English say, like to "take a flutter," are ideal prospects for the fun of horse racing.

Central to any discussion of this issue must be the recognition that British Columbia, Alberta and the State of Washington have become slot machine markets. As more than one observer has said, "the genie is out of the bottle." Neither Hastings Park nor Fraser Downs can come close to matching the advertising budget of casino organizations or the B.C. Lottery Corporation. As outlined earlier in this report, racing has declined for

20 years while lotteries and casinos in B.C. soared from $70 million in 1980 to more than $1.5 billion today. Racing is a complex labour-intensive industry. Casinos are pure cash flow with little employment relative to revenues, and virtually no ancillary economic benefit.

Evidence is everywhere in North America that jurisdictions which permit slots, without including racetracks, soon find that their more valuable racing industry becomes seriously ill. Permitting the tracks to have this extra entertainment option quickly demonstrates not only that they are an acceptable place for these devices, they are probably the best location. They are at a centre somewhat detached from the community at large and under the watchful eye of professional managers and regulators whose careers have been built, in part, upon the honest and competent management of gambling.

Ontario has put its industry on an equal footing with casinos. Slot machines at racetracks have proved to be an astonishing success, with virtually no public complaints. This has produced bigger purses, more horses, more breeding, higher prices for yearlings, increased farm values, higher attendance at race meets, rising pari-mutuel wagering, a younger audience and unprecedented excitement.

Professional surveys conducted during mid-2000 by MarkTrend Research Ltd. for Fraser Downs in Surrey and North Saanich demonstrated only minority opposition to slot machines at the track, basically just from people who are opposed to every form of gambling in the community. A majority of the raw sample in each case expressed no objection and once informed of the following, about two-thirds became supporters:

- 300 slot machines would likely generate a minimum of $2 million to the local government.
- horse racing jurisdictions right across Canada are permitted to have them, creating higher purses that attract people and horses away from B.C.
- horse racing is a big employer and this would mean more jobs.
- horse racing has a long-established excellent track record in the management of wagering.

The actual estimate of net profit to Surrey from 300 slot machines at Fraser Downs, based on the Ontario experience and the activity within B.C. casinos, is $4 million per year. In North Saanich, the number is likely $3 million.

Track general managers Phil Heard (left) of Hastings Park Racecourse and Chuck Keeling of Fraser Downs and Sandown Park, enjoy a relaxed moment during the 2001 thoroughbred season opener.

The women riders of 1992

Impressed by these and other industry arguments (the Horse Racing Alliance played a lead role), in 1998 the B.C. government approved 300 slot machines for Hastings Park and the same number for Fraser Downs, with a catch: local government approval was required. Both the City of Vancouver and the City of Surrey refused to accommodate the request. But the province-wide gaming controversy continued to erupt as more destination casinos were approved. In early 1999, the provincial government issued a moratorium on gaming expansion, and this effectively rescinded the previous permission to the racing industry. The industry believes that if local council support is achieved by Hastings, Fraser or Sandown, the province will co-operate. So far that has not been forthcoming.

Those interested in developing a new racetrack have actively scouted properties for several years now. The current search asks first whether local hosts would support slot machines and, if so, how many. It is believed that 1,500-2,000 would be necessary at the super track complex currently envisaged. But there is also a new wrinkle in this issue. If the current host municipalities continue to deny permission, existing

tracks believe they will be forced to scout for new locations.

Surrey Council has been a strong supporter of Fraser Downs in everything but the slot machine issue, and several councillors have openly declared their support. Surrey helped the racetrack with a strongly worded motion early in 2000 recommending elimination of the pari-mutuel tax and other compensation in light of the inconsistent gaming policy. Recently, Surrey has struck a special committee that is expected to move the slot machine issue to a decision stage, early in 2001.

RECOMMENDATION

New racetrack developments should not be considered without assurance from provincial and local governments that slot machines would be approved at the location. Furthermore, if municipalities hosting racetracks remain hostile to the installation of slot machines, the provincial government and the British Columbia Racing Commission should strongly urge existing tracks to move.

Repositioning the industry - government

The phrase "repositioning the industry" will be a marquee comment in the closing stages of this report, as a later section analyzes the "racing brand." What is the ideal market for the racing sport? But the phrase is crucial also with respect to government. It is our view that the British Columbia government was more conscious of the brand than the industry itself, when it commissioned in 1998 separate reviews of gaming, bingo and horse racing. The government knew that horse racing is different.

At its heart, is it sports? entertainment? recreation? finance and investment? food and hospitality? gambling? All of these things?

A casualty of the fight for survival is the industry's perception of itself. It has focused, almost to the point of obsession, on extracting more funds from existing pari-mutuel customers and on the slot machine issue.

OBSERVATION

The industry's obsession with slot machines has had serious consequences on not just how horse racing is perceived, but how the racing community now perceives itself. The industry has encouraged a gaming identity, depreciating in the process its consideration as a professional sport, an entertainment product and a vital component of the agricultural industry.

The tendency of all governments is to consider horse racing a miscellaneous activity that has to be slotted "somewhere" or "anywhere" in the ministerial scheme of things. The BCRC has, within the past 15 years, gone through eras of reporting to the Attorney-General, the Solicitor-General, the Minister of Economic Development, Finance and the Minister of Labour. In previous generations, horse racing has been under the purview of Agriculture, as it still is at the federal level.

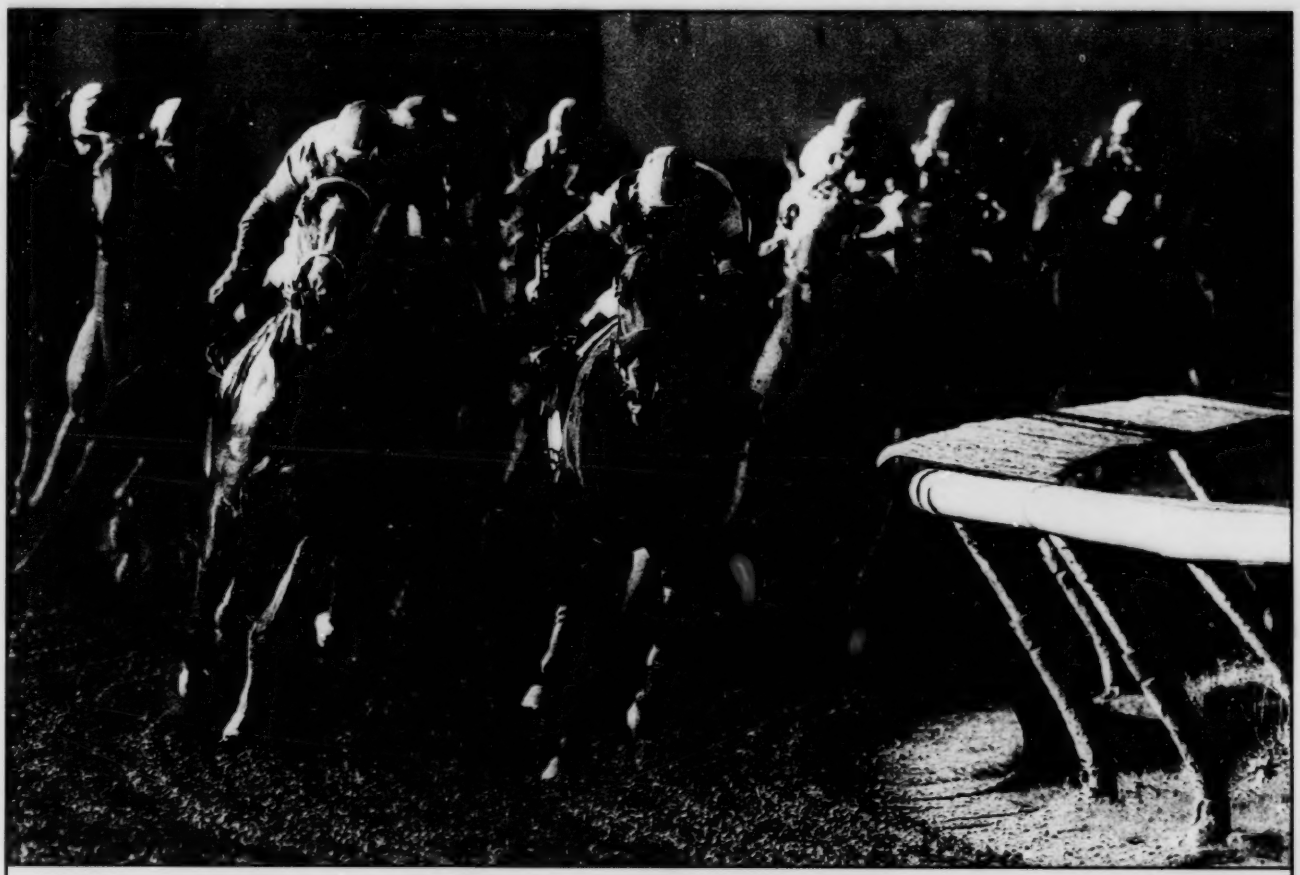
OBSERVATION

The recovery of horse racing will never take place unless it has the attention of a minister who cares and who is prepared to invest time and energy to the cause.

RECOMMENDATION

Ideally, horse racing and the BCRC should report directly through an appropriate ministry of government such as economic development or agriculture, and not fall under omnibus approaches to the administration and regulation of the gaming industry.

This collage from a 1999 Fraser Downs publication was prepared to illustrate the diversity of employment generated by horse racing. Few industries - and particularly not lotteries or casinos - can match the variety of jobs or leveraged-dollar economic impact routinely delivered by this sport.



III. The Super Track, Teletheatres & the Internet

A quarter century ago a standard one mile thoroughbred racetrack was merely a dream in the minds of British Columbia horsemen. Today, a "super track" has become a basic requirement for survival. Vancouver fans have experienced a World's Fair, GM Place, NHL Hockey, the National Basketball Association, possibly the finest ski resort in the world and similarly admired attractions in other fields. Horse racing has not kept up with the modern pulse of sports, recreation and entertainment. Racing appears to be a throwback to another era, with facilities that might have impressed during the 1960s.

Few businesses these days can afford to leave their facilities idle for very long. Fast food franchises started serving breakfast simply to maximize value from the overhead. In the same sense, racetracks which used to be able to operate for relatively short seasons, and be dark most of the year, now find this unaffordable. The cost of land, taxes, facilities and operation is such that revenue-generation is mandatory 12 months of the year and, where practical, 18 hours a day.

This is why Woodbine Raceway in Toronto is so successful. The thoroughbred sport has a long season racing principally during afternoons (one night card per week). For a major part of the year, harness racing is featured at night. First class simulcast facilities and a 1,700-machine slot machine area operate year round. The complex is increasingly becoming a venue for other entertainment events, meetings, conferences and group activities. Woodbine and OJC advertising now promotes multiple entertainment options.

This is the model British Columbia must emulate. Various sites have been investigated over the years in Aldergrove, Langley, Surrey, Delta and Richmond. Former proposals focused on the provincial government's Colony Farm land in Coquitlam and yet another plan involved riverbank property in an industrial area of New Westminster near the Patullo Bridge. The minimum required property size is 150 acres but the optimum would be closer to 300. Woodbine Raceway is a 780-acre complex.

A study by Mohan Jawl in 1988 was farsighted. His most controversial proposal was a joint breed facility to serve both thoroughbreds and standardbreds. Little more official thought was given to this until the success at Woodbine during the mid-1990s.

The Woodbine model would require the following:

- one mile thoroughbred dirt track with chutes
- thoroughbred turf course of at least 7/8th mile
- 5/8 to 7/8th mile harness racing track
- training track
- stables for 1,500 thoroughbred horses
- unless acreage and infrastructure made feasible the inclusion of permanent standardbred stables the fallback would be a truck-in barn for 120 harness horses
- grandstand complex with seats, boxes, luxury suites, clubhouse, lounges, table terrace and turf club. Simulcast facilities must be positioned and designed in such a way that they can efficiently stand-apart, for low overhead operation when nothing else is happening in the main complex
- Jumbotron TV screen along the homestretch
- 1,500 - 2,000 slot machines
- fibre-optic cabling throughout the grandstand and backstretch areas to facilitate modern communications, television and Internet utilization from any spot
- large parking areas and bus loading zones. It should be noted that acreage concerns could be abated considerably with the construction of multilevel parking structures.

Churchill Downs

Del Mar

The standardbred sector argues that a true joint-breed complex should provide residential stables and training facilities for both sectors of the industry. This brings into play the greatest obstacle to any development: land. Not many large tracts are available in ideal hub locations within the lower mainland.

Here are key factors that must be borne in mind:

- To emulate Woodbine, with everything in the list above, would require a minimum of 150 acres and preferably 200.
- Some recent conversations about future developments, considering 100-150 acres, have suggested truck-in facilities only for thoroughbreds as well as standardbreds, or, alternatively, eliminating the turf track.
- The true joint-breed complex, with residential stables and training track for both breeds (600-1,000 standardbreds), would need 200-250 acres of land.

It is certain that wherever sufficient land is found, it will be a long way from downtown Vancouver and the affluent North Shore. It will be a challenge to attract crowds, media and mainstream corporate partnership to a location in the more distant reaches of the urban area, but the industry has no other choice. City teletheatres will maintain the pari-mutuel cash flow and it is hoped most fans would want to share the live action some of the time. Offsetting this somewhat would be the dramatic population growth that is currently taking place in the metropolitan area, and much of this would likely be in easy reach of the racetrack.

RECOMMENDATION

EVERY EFFORT OF THE B.C. HORSE RACING INDUSTRY AND THE GOVERNMENT OF B.C. MUST UNITE FOR THE DEVELOPMENT OF A NEW WORLD CLASS JOINT-BREED RACING COMPLEX.

The PRA is currently engaged in discussions concerning the sale of the Hastings Park business and discussions have also taken place with Orangeville Raceway Ltd. The ideal situation would be a common operator for

both breeds, but that is beyond the scope of what can be proposed here. No element of the horse racing industry can thrive today without strategic partnerships and we assume that if there is not to be a common operator, other contractual arrangements could achieve the optimum joint breed facility.

OBSERVATION

Despite its current fiscal problems, the PRA has managed to keep its government-supported debt at not much more than what was required to buy out the B.C. Jockey Club and therefore, it would seem to be a simple proposition to assume that any change of ownership would easily liquidate the debt and provide some elbow room for further investments. Private sector investors would consider these factors:

Gulfstream Park

Belmont Park

- the 1990s economic anomaly, with weak resource prices and a financial crisis in Asia
- an established, debt-free standardbred sector able to race year round
- the traditionally high per capita wagering of the B.C. fan
- the redirection to the industry of the final 3% of pari-mutuel handle that went to government
- the PRA's strong links with Hong Kong and Australia, serving as a hub for their increasingly popular simulcast racing signals
- the advent of slot machines
- a live racing and simulcast market in the Pacific Time Zone, of considerable value to Eastern-based racing corporations, for the purposes of strategic alliances
- the future economic prognosis for B.C. resources, its growing Asian financial links and its gateway role to the Pacific Rim, indicate a prosperous future.

These, and other industry economic development initiatives would make substantial capital investment in British Columbia facilities a bankable proposition. We, as a committee, urge the B.C. industry not to undervalue itself in the face of current difficulties. The future potential is great.

RECOMMENDATION

In the event that current talks fail to achieve new owners, the BC Racing Commission and all major players in the industry - including the PRA - should seek a new operator for Hastings Park Racecourse. An entity willing to make a major capital investment, with or without potential slot machine income, should be sought.

OBSERVATION

The Fraser Downs situation is different. If the operator succeeds in obtaining permission for slot machines, there would be no compelling reason for this track not to continue, irrespective of whether a joint-breed facility gets built. The ideal arrangement may well be the perfect emulation of the Mohawk-Woodbine situation where Fraser Downs would remain the cultural heart, the principal stables, veterinary centre, the key training track and the executive headquarters of the standardbred sport, while live racing split its year between each location.

If harness and thoroughbred remain separate, any policy improvements or concessions to Fraser Downs (strategic alliances with the new thoroughbred complex, Internet and simulcasting benefits, slot machines or similar improvements) must result in significant capital investment by the private sector operator, Orangeville Raceway Ltd.

Teletheatres

They are known by a lot of names around the world: OTBs, Offtracks, TAB Centres, Race Books, betting parlours and bookmakers (the legal kind of bookie - or "turf accountant" - in some countries). Whether it be the official Off-Track Betting (OTB) outlet of New York, a Totalisator Agency Board (TAB) seller in New Zealand, a Ladbrokes Bookmakers of England or a Race Book at Harrah's in Nevada, it's all the same. You enter a premises where television sets show you the races and you can bet on them. In the very old days in some jurisdictions, legal or illegal, they even did this when the only source of race data was telegraphed results, and later radio.

In Canada this is a very young phenomenon, but teletheatres exist from Quebec west, usually as adjuncts of existing bars, clubs and lounges. In Manitoba, they are also in destination casinos.

TBC Teletheatres has permission to operate as many as 28 outlets around the province, but none in proximity to either Fraser Downs or Hastings Park. The nearest to Vancouver is Chilliwack. Teletheatre management is a partnership between Orangeville Raceway Ltd., the Pacific Racing Association, the HBPA and the BCSA, with contractual obligations to ensure certain benefits to the breeders and the Interior Racing Association.

During the early 1990s it was envisaged that the teletheatres would be interim market development initiatives for the sport, creating new fans who would look forward to visiting live racing when they had an opportunity, and also the source of new horse owners and syndicates. But it was envisaged at the time that satellite television and interactive video would see most fans betting from their homes. As a result, the emphasis was not placed on expensive-to-develop stand-alone teletheatres.

To date, the teletheatre network has represented a lost opportunity. In British Columbia, they have been viewed by both the racetracks and the horsemen's associations purely as a revenue stream. Little investment takes place in most outlets. Existing hotels and bars contract to provide certain services in exchange for providing this extra customer draw. Their profit margins are too slim to encourage significant investment. The industry measures their success solely on how much revenue is returned from each address, not based on what is done to advance the interests of horse racing in new markets.

Some of the teletheatres are embarrassments, smoke-filled corners of the least desirable kinds of pubs and bars. They advance the stereotype of a loser business, catering to the lowest common denominator. They advertise so poorly in local markets they are almost impossible to find.

There is a sufficient number of exceptions to encourage healthier redevelopment. A few of the teletheatres are comfortable, charming environments with good food, good service and interesting surroundings. But, to be charitable, it is an eccentric way to build a chain. There seem to be no standards or design templates, so consistent with franchise success stories in just about every other business.

OBSERVATION

The TBC Teletheatre network has evolved poorly, with too many substandard outlets, a complete lack of design consistency and marginal operations. The revenue split with host venues is inadequate to support facilities that would be a credit to the sport. The committee believes the network should have as its highest priority a market development culture, rather than merely being a source of more wagering income. Each teletheatre could be a promotional centre for the sport, live racing, horse ownership and the development of new fans.

Unlike other major Canadian cities, Greater Vancouver has no teletheatres. Initially, all four partners worried that these units would draw business away from the live racing product at Hastings Park and Fraser Downs. This attitude changed along the way, but subsequent concerns about revenue sharing between horsemen and operators, and between thoroughbred and standardbred, failed to achieve results.

Consensus now exists within all sectors of the industry to permit stand-alone teletheatres within the Greater Vancouver area and active planning is in place for the first, to be located in Richmond.

RECOMMENDATION

All geographic prohibitions against teletheatre development should be eliminated. This means the opening of stand-alone teletheatres within Greater Vancouver.

It is evident that a streamlined ownership situation is required in order for the teletheatres to attract private investment and to achieve the kind of facilities needed. In the event of new partnerships, where private owners make all of the investments in facilities and operations, consultation with horsemen's groups would remain in terms of the pari-mutuel proceeds, but decision-makers must be equity investors.

Committee discussions questioned whether racetrack operators possess the correct set of skills to maximize opportunities in what is essentially a chain of retail entertainment operations.

RECOMMENDATION

A serious study should take place into the nature of the teletheatre business to determine whether it is best directed as an extension of racetrack operations, or whether it requires a set of skills more suitable to franchise restaurants, sports bars and other chains of entertainment centres.

STATEMENT OF PRINCIPLE

TBC Teletheatres must become an equity investment for private sector owners, either the operators of the thoroughbred and standardbred tracks or a new entity which would contract with them to distribute the racing products. Revenue sharing formulas can protect the interests of horsemen, breeders, and the operators of live race venues (including Sandown and the Interior tracks).

This report discussed the pari-mutuel split in some detail in the last section, but it is just as crucial to the evolution of teletheatres as it is to the live racing product. The successful Ontario approach requires the operator to finance the entire business. The gross pari-mutuel profit from each location (after deducting only the commission paid to the track originating the signal and what is required by the regulators) is split 50-50 between the operator and the horsemen's interests.

RECOMMENDATION

With respect to new teletheatres, and, where feasible, evolving on a case-by-case basis throughout the entire TBC Teletheatre network, the pari-mutuel revenue sharing formula should be modelled upon the successful Ontario experience.

The committee was impressed by the presentation of Bruce Barbour, General Manager of TBC Teletheatres, who straightforwardly addressed the committee's concerns. He generated considerable interest when he outlined future potential in the high technology area. He divided his presentation into two segments: "bricks and mortar" and "the virtual teletheatre." This report will do the same.

Bricks and mortar teletheatres

RECOMMENDATIONS

Marginal operations should be closed. It must be understood that teletheatres reflect upon the image of the broader industry and must attempt to achieve an acceptable standard.

Business plans for new teletheatres outside of the Greater Vancouver area should include an investment in market development, not just for the specific site, but also to educate fans and promote B.C. horse racing, horse ownership, syndication and travel packages to send customers to live race meets at the province's tracks.

British Columbia liquor licensing currently requires that the actual pari-mutuel betting area of any teletheatre be completely segregated from the areas where alcohol is served. This also impacts upon the club rooms, restaurants and lounges of racetracks. For the small teletheatre operator it is a serious financial burden. This extra real estate can only be used during racing events and must otherwise be wasted space. These rules do not apply to keno games, casinos and other competitions in public bars.

RECOMMENDATION

CURRENT PROVINCIAL REGULATIONS REQUIRE TELETHEATRES TO ESTABLISH SEPARATE BETTING AREAS, SEGREGATED FROM FOOD AND BEVERAGE OPERATIONS. THIS IS INCONSISTENT WITH ALL OTHER GAMING CENTRES, YET ANOTHER DISCRIMINATORY IMPOSITION UPON HORSE RACING. THIS EXTRA SPACE, USELESS TO THE LANDLORD OUTSIDE OF HORSE RACING EVENTS, IS EXPENSIVE. THIS PROVINCIAL REQUIREMENT SHOULD BE ELIMINATED.

This same B.C. regulation prohibits a service which once was prominent at the higher-end racetrack dining rooms and turf clubs: direct pari-mutuel sellers serving customers at their seats. Most of the tracks which used to do this gradually gave it up because of the high cost of staff and poor utilization, but it is making a comeback in response to modern simulcasting and new automated betting equipment.

SAM (Self Activated Machines) units are now located in the pari-mutuel selling area and at other convenient locations at racetracks and teletheatres. Many fans prefer them, particularly those who like to punch-in complicated betting combinations for exotic features. B.C. law does not permit them in areas where liquor is served. New technology now makes it possible to provide interactive devices to individuals at their tables. They need not move in order to bet on either the live race in front of them or the multiple number of attractions made available over the television. Cell phones can be used from anywhere for TAB betting, and the newer individual devices (called Tiny Tims) are an extension of that. The spread of this technology in B.C. (increasingly used elsrwhere in the world) will require further clarification of liquor licensing requirements.

Increasing numbers of fans will be doing precisely that at home. While watching satellite delivered horse races on their televisions, they will be wagering with their laptop computers or special interactive media over the Internet.

In jurisdictions where direct sellers use handheld technology in dining areas, it can assist "welcome hosts" as they help first-time fans and groups. This eliminates the intimidation factor of the pari-mutuel lineup, expedites education and improves the quality of the racetrack experience.

RECOMMENDATION

REGULATORY CHANGE SHOULD BE SOUGHT TO OFFICIALLY PERMIT THE USE OF AUTOMATED AND HANDHELD PARI-MUTUEL DEVICES IN DINING AND LOUNGE AREAS. B.C.'S PROHIBITION OF WAGERING WHERE LIQUOR IS SERVED PREVENTS A SERVICE THAT IS APPRECIATED ELSEWHERE. THIS CHANGE WOULD PERMIT SELF-SERVICE BETTING MACHINES NEARER TO FANS BUT, MORE IMPORTANTLY, IT WOULD FACILITATE PARI-MUTUEL SELLERS TO SERVE CUSTOMERS DIRECTLY AT THEIR SEATS. THIS WOULD BE PARTICULARLY USEFUL IN EFFORTS TO GIVE NEW FANS - INDIVIDUALS AND GROUPS - BOTH GOOD SERVICE AND HELPFUL ORIENTATION IN AN UNINTIMIDATING FASHION.

www.thebettingcompany.com:

Bruce Barbour delivered a comprehensive report about ambitious plans to put British Columbia into the mainstream of Internet technology. This is The Virtual Teletheatre. TBC has secured the domain www.thebettingcompany.com, which would, at face value, appear to have considerable promotional appeal. TBC Teletheatres and the current track operators made an earnest request that this committee make a substantial investment in creating for the B.C. industry the greatest web site in horse racing anywhere.

This web address currently has a clean, attractive home page with links to Hastings Park and Fraser Downs. Both tracks offer live Internet streaming of actual races and up to date posting of entries, scratches and changes,

The unique atmosphere of Sandown Park, near Victoria

results and payoffs. TBC Teletheatres uses this site for information about all of its services in English and, for some items, Chinese, particularly instructions concerning TAB (Telephone Account Betting) and IVR (Interactive Voice Response) wagering.

TBC Teletheatres, a web-streaming contractor and Telus have been planning a major evolution of this technology.

Opportunities through this vehicle would be limited only by the imagination:

- A B.C. horse racing supersite with sub sites for each track operation, major agencies and industry associations.
- This would be laced with interactive videos and photos describing every aspect of the sport: history, current operations, regulations, professional organizations, simple wagering guides and sophisticated handicapping tips. . a vast range of information, marketing and PR materials.
- The most sophisticated audio and video streaming in the horse racing industry with enormous bandwidth and near-television quality. Streaming ability for both live local races and anything carried as a simulcasting product.
- Interactive race book for wagering on those and all events, either through direct computer linkages or TAB.
- Video archives of old races.
- Virtual tote boards.
- World-wide racing links.
- Advertising modalities.

There is a cost of not doing this. As fans grow less and less enamoured of TAB and IVR accounts, they will be turning to the Internet. Once lost, they may be gone forever. If British Columbia is not there with the best and most efficient site, we will lose people to other services. The B.C. Internet facility can put together packages of promotional advantages that would encourage regionally-based fans to keep their on-line activity at home. Co-operative industry initiatives would focus on TBC Teletheatres and local tracks, including the KeyChain Rewards Club, a preferred customer points program for pari-mutuel players. A first class Internet site could also compete for business around the world: everywhere quality signals of featured horses races can be obtained through either satellite TV or Internet video streaming.

STATEMENT OF PRINCIPLE

British Columbia must pursue with vigour the development of high technology and Internet wagering facilities. Fans can now bring horse racing into their homes through cable and satellite television and establish wagering accounts with a variety of providers. In order to keep B.C. fans at home, and to attract new people to our industry, we must attempt to have the highest levels of Internet and technical proficiency.

TBC Teletheatres requested financial help from the committee resources in a number of areas related to "bricks and mortar" teletheatre expansion. The committee has avoided investments that should be the responsibility of specific operators, unless the item would serve as a pilot project for the industry at large. We believe teletheatres must explore new private sector partnerships and investment.

(IVR) Interactive Voice Response:

Negative comments were made at committee meetings about one of the most profitable and fastest growing technologies within the teletheatre operations. This is an automated telephone system whereby customers can phone in their bets, following electronically recorded instructions.

Mr. Barbour's information about the profitability of this service as opposed to conventional TAB operations was not disputed, but the committee believes that this type of technology will rapidly disappear as interactive Internet and video processes take root. It operates like all electronic telephone instructions using numbers to chose the racetrack, race number, type of wager, amount of money, and then horse combinations. It is time consuming, clumsy and customer-unfriendly.

Rick and Amanda Hansen helped Cloverdale Raceway support local charity. They are shown with their host that day, Jerome Bouvier, who still trains horses despite being a paraplegic as a result of a boating accident.

Despite that, the dramatic growth and profitability of the service, invariably at capacity, indicates a need for expansion. Critics argue that the IVR phone demand is a reflection of an insufficient number of live operators.

In the long run, people are not going to listen to tedious telephone instructions for punching in wagers if it could more simply be done by touching a computer screen. We accept that for a considerable period of time the IVR approach will be vital to serve customers and expand the service, but we would advise minimal research and development activity.

New technology, proposed by TBC Teletheatres, Fraser Downs and Hastings Park would put IVR in the vanguard of a new era of public service. TAB wagering falls under federal law, as a byproduct of national phone regulations. It facilitates better networking and less race-specific regulatory interference.

Central to the evolution of "the virtual teletheatre" in British Columbia and "www.thebettingcompany.com" is new technology to make IVR merely a conduit through which electronic betting instructions would be routed. Customers would punch in their wagers on a special handheld device (such as a Tiny Tim), a palm pilot or a computer laptop. Each of these latter devices could have a command window looking and working exactly like the existing SAM machine. These finger and computer generated signals would be projected to the IVR equipment which would then dispatch the tones to instantaneously record the wagers.

RECOMMENDATIONS

TBC Teletheatre's web address www.thebettingcompany.com should continue its development of the "virtual teletheatre" as complementary to the "bricks and mortar" operations.

The committee is prepared to recommend a repayable grant for the development of internet technology, paralleling similiar investment by other private sector partners. At the conclusion of projects made possible by this investment, and if trends are positive, we would be prepared to recommend more funds to complete the job. These repayable grants may have to be repaid before any change of equity ownership.

Illegal bookmaking

Conservative estimates indicate that illegal bookmaking represents many tens of millions of dollars of lost pari-mutuel activity in B.C. each year. Some suggest that illegal wagering on horse races may be half or more of the total pari-mutuel handle of the provincial industry, over $100 million per year. There are no reliable statistics.

Police and BCRC officials are aware of dozens of pubs, bars, ethnic cafes and restaurants that have a bookmaker using the premises as a base. The more sophisticated ones have television sets carrying various race signals. The Vancouver Police Department's Gaming Unit could point out dozens of operating bookies in a brief afternoon's drive. The big bookie joints, servicing a network of runners from other neighbourhood establishments, are sophisticated businesses.

Satellite dishes on the roof pull down horse race signals upon demand. Some of these signals are from paid cable such as The Racing Network, but others are simply pirated. Complex and expensive technical considerations often prevent the originating tracks from properly scrambling their signals, usually related to the plethora of different decoding boxes required at various tracks to make legitimate simulcast products available to fans.

The illegal operations have several advantages over the racetracks:

- Free parking and - often - free programs to the best customers.
- Conveniently located. Fans can pop in to see a race or two and then go back to work or other commitments. Going to a racetrack is often a difficult hurdle, and too expensive for a quick hit.
- Credit.

Extraordinary resources are required to investigate and bring this criminal activity before the courts and, when that happens, fines are minor, and not nearly appropriate to the dollar value of the crime. A crackdown during the mid-1990s seized equipment from many of the most high profile operations and brought the principals before the courts. They received fines that could be repaid from a couple of hours business, and all of their equipment was returned. Canada's new "proceeds of crime" legislation may play a role in more effective future measures. The perception is that this is victimless crime. We would further suggest that second offences by any one of the city's many well-known veteran bookies might get the desired results from the courts, discouraging this activity.

OBSERVATION

BOOKIES ARE STEALING MONEY FROM THE HORSE RACING INDUSTRY AND ITS FANS JUST AS SURELY AS IF THEY ROBBED THE CASH VAULT AT THE END OF A RACE DAY. IT IS VIEWED AS A VICTIMLESS NON-VIOLENT CRIME. SOME OF THE BOOKMAKING OPERATIONS ARE WELL KNOWN. IT IS SPECULATED THAT TENS OF MILLIONS OF DOLLARS ARE BEING DIVERTED FROM THE HORSE RACING INDUSTRY, EVERYONE WHO DERIVES AN INCOME FROM THE SPORT AND FROM THE PRODUCT ENJOYED BY FANS.

RECOMMENDATION

THE ATTORNEY GENERAL OF BRITISH COLUMBIA, THE RCMP, VANCOUVER POLICE AND OTHER APPROPRIATE AGENCIES SHOULD MAKE THE PIRACY OF HORSE RACING'S TELEVISED SIGNALS AND ILLEGAL WAGERING ON THESE RACES A HIGHER PRIORITY FOR INVESTIGATION AND PROSECUTION.

THERE IS ALSO A BUSINESS ANSWER TO THIS PROBLEM. ILLEGAL BOOKMAKERS ARE SUCCESSFUL BECAUSE THE INDUSTRY HAS NOT BROUGHT THE BUSINESS WITHIN EASY REACH OF PEOPLE WHO ARE NOT ALWAYS ABLE TO GO TO THE TRACK.

OBSERVATION

THE BEST WAY TO DEFEAT BOOKMAKERS FOR GOOD IS TO PUT A FAR HIGHER QUALITY TELETHEATRE OPERATION IN THE MIDDLE OF THEIR NEIGHBOURHOOD. THEY CANNOT COMPETE WITH A PROFESSIONAL HORSE RACING OPERATION RUN BY PEOPLE WHO TRULY UNDERSTAND NOT JUST THE PRODUCT, BUT ALSO THE FANS.

Sports wagering a sports book

Wagering on North American major league and international professional sports is a multi-billion dollar business despite being illegal everywhere but Nevada, Atlantic City and designated casinos spotted across the United States. It is said that every office building in the U.S. has at least one

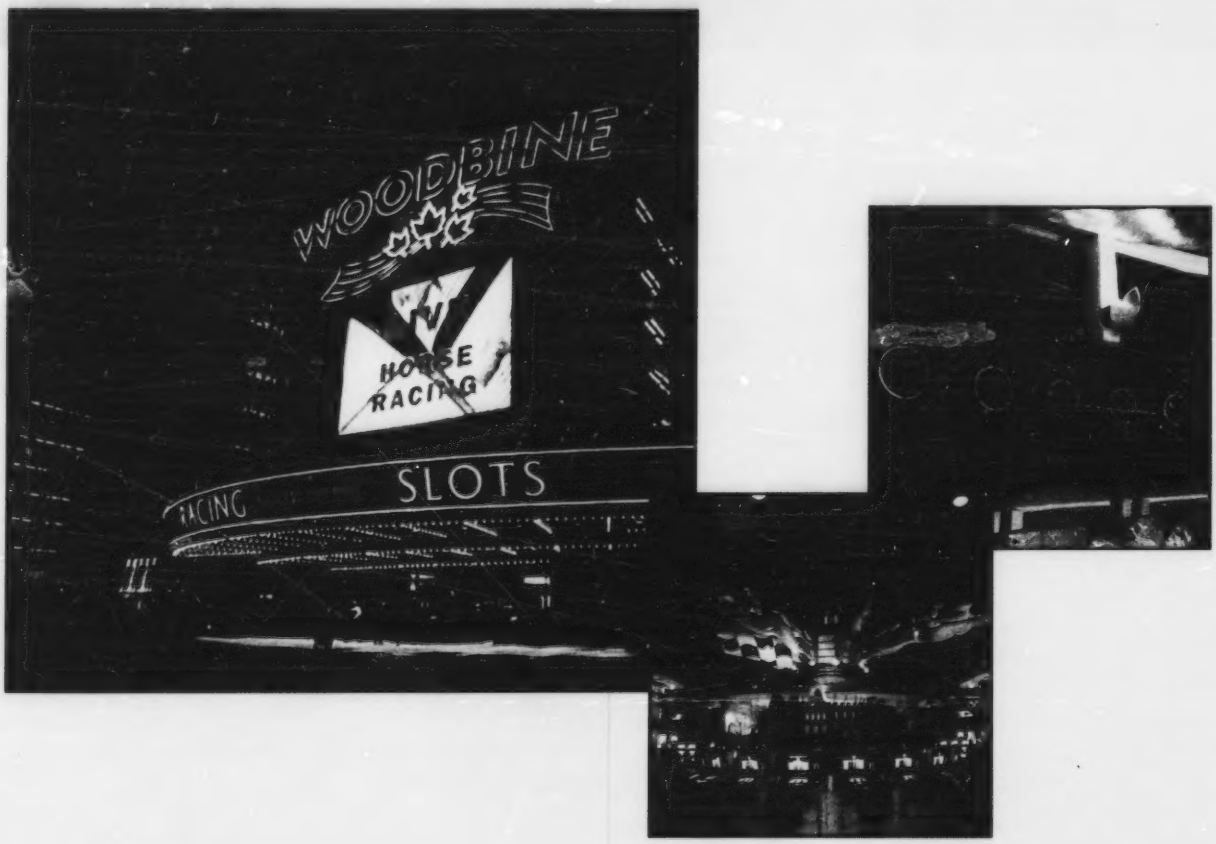
successful bookie, well-known to all of the inhabitants. The authorities turn a blind eye to this trade.

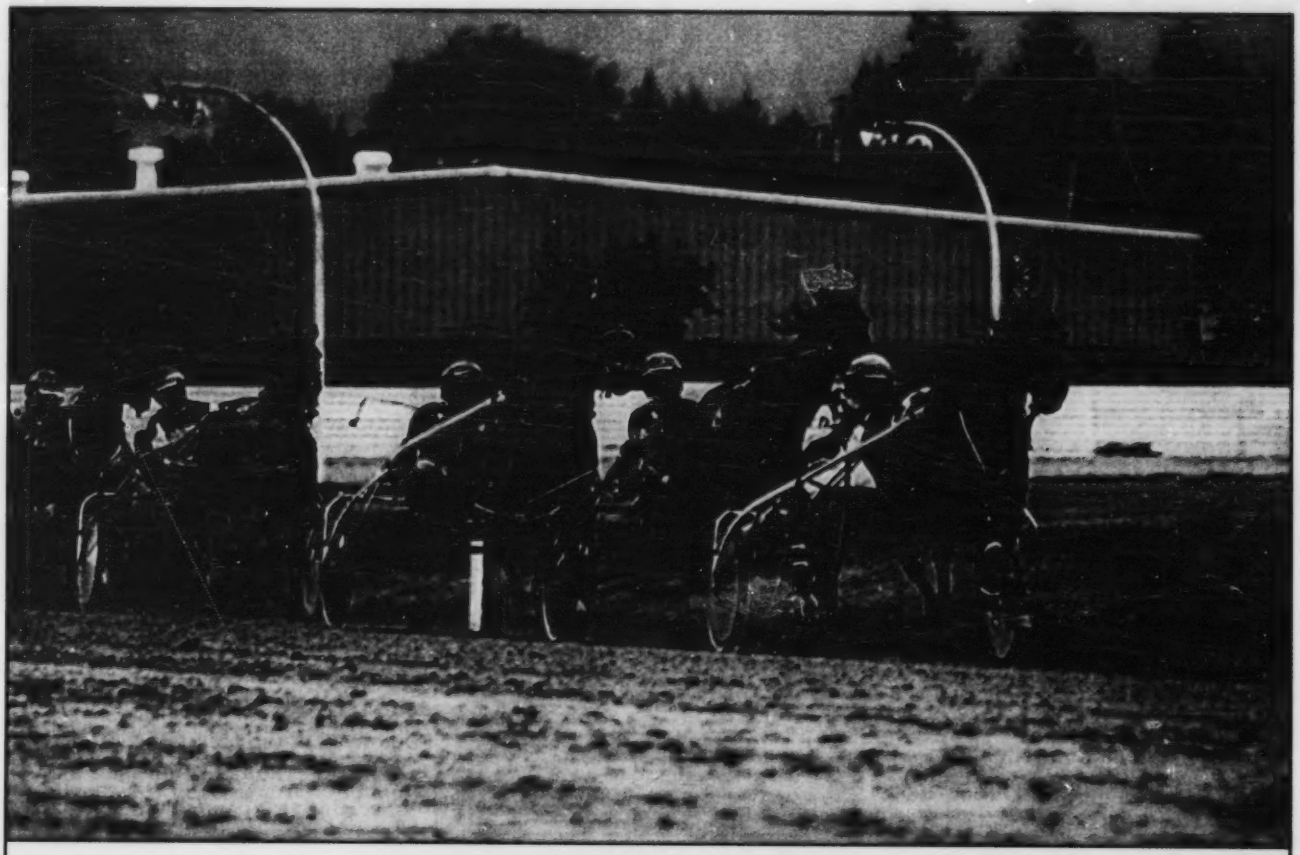
Sports wagering is prohibited by the Canadian Criminal Code although Hiawatha Raceway in Sarnia is applying to the federal authorities to have this ban lifted. This is now blossoming onto the Internet and Canadians are among the eager participants. Wellknown bookmaking operations in B.C. thrive on this illegal activity. It is inconsistent at best, and hypocritical in the extreme, to suggest that any public service is being performed by preventing this type of wagering to take place in a legal, controlled, attractive and professional environment. We think the time has come for change and for B.C. to get near the front of the parade, rather than the back.

This is an opportunity for government to give something back to the horse racing industry - an exclusive in view of the genuine suffering endured because of other forms of gaming.

RECOMMENDATION

B.C. would be advised to explore the possibility of creating complete "sports book" wagering services at racetracks, high quality teletheatres and on the Internet site - an exclusive for the horse racing industry. The ability to wager on all sports would require federal Criminal Code amendments, but we would be joining certain Ontario operations in seeking this opportunity.





IV. Horses, Breeding & Racing

It is a challenge to break even - let alone make money - by buying race horses in British Columbia. Thousands of people earn a living from the sport in a multitude of job types, and a handful earn a good income commensurate with their professional skills and responsibilities. Judged on finance alone, however, owning a race horse for either breeding or competitive purposes has become an investment in a dream. A sufficient number succeed to motivate others, but there will be no recovery unless the prospect of success is there for everybody.

Vancouver racing has a history of success out of all proportion to the size of the market. Industrialist Austin Taylor's *Indian Broom* came third in the 1936 Kentucky Derby, and oil man Frank McMahon wrote thoroughbred headlines with many horses, the most famous of which was *Majestic Prince*, which won both the Kentucky Derby and The Preakness. A generation ago the greatest B.C. bred thoroughbred ever, *George Royal*, cleaned up in California and elsewhere, including the prestigious Canadian International at Woodbine. Jack Diamond's magnificent *Police Inspector* won stakes races in five consecutive years in B.C., Alberta, Washington, California and Louisiana. The B.C. bred *Travelling Victor* was Canada's horse of the year in 1983. Mohan Jawl's *Bedside Promise* set the Hollywood Park track record and captured a third in the Breeders' Cup sprint during an extraordinary 1984-85 campaign. *Au Printemps*, owned by Tri Star and David Bowman, won more recent stakes here and elsewhere, and went on to foal several graded stakes winners (including a Breeders' Cup Juvenile winner). Great jockeys such as Willie Shoemaker and Sandy Hawley have delighted local audiences. Hall of Fame jockey Johnny Longden, a Canadian, started his career at Hastings Park in 1928 and chose that location in 1965 for his 6,000th win, at the time a North American record.

Even today, at its lowest ebb, there are Vancouver connections to great moments in the sport. Jeffrey Sengara 30-years old in 1999 - claimed a horse named *Budroyale* in California for just $50,000 and multiplied that investment many times in prestigious stakes races, including a second in the Breeders' Cup Classic at Gulfstream in Florida. John Toffan and Trudy McCaffery, who consider Vancouver home, are among the most prominent horse owners in the United States. The breeder and owner R.J. Bennett is respected all over North America. American businessman Charlie Dunn, a member of a well-known Vancouver racing family and a director of Seattle's Emerald Downs, owned *Jumron*, a Grade I stakes winner in California before finishing fourth in the 1995 Kentucky Derby.

One of B.C.'s greatest jockeys, Hall of Famer Basil Frazier, in 1974

The standardbred sport in B.C. has also has its moments. During 2000 at the Meadowlands, near New York City, Robert Murphy's *Red Star Minckler*, set the all-time record for a B.C.-bred horse in the phenomenal time of 1:49$^{2}/_{5}$, a second off the world record. In recent years, a B.C. bred filly *Tigh N' Mara* was the best on the grounds at Woodbine and Mohawk, also earning big money at the Meadowlands. *Red Star Longshot* won prestigious races elsewhere in North America and, in earlier generations, *Hy Class Minbar* became a Canadian legend and *Columbia Nipper* once held a track record in Chicago of 1:51$^{2}/_{5}$. These were all products of the province's breeding program. Cloverdale Raceway/Fraser Downs has hosted many superstars, including the legendary horse *Cam Fella* and Hall of Fame drivers Keith Waples, Ron Waples and Mike Lachance. Local legends Joe Hudon (now in Ontario) and Bill Davis have between them won seven North American driving championships, racing primarily on the Cloverdale track.

Visiting superstar jockey Chris McCarron signs a poster for the entire Forster family. Respected trainer Dave Forster is at the rear. But the eager young fellow at the centre of this 1985 photo has gone on to considerable fame of his own, Vancouver's Mickey Walls, a perennial star at Woodbine Raceway in Toronto.

In search of a dream

Horse owners are propelled by a dream, that humble horse, purchased cheaply, that duplicates the *Seattle Slew* experience of not too distant history. But there are several B.C. owners who continue to make sizeable investments, importing horses from renowned breeders in Kentucky, Ontario, California, New Zealand and elsewhere. This not only creates competitive excitement on the track, eventually it upgrades the local breeding stock.

But dreams can go only so far. The bills have to be paid. We documented earlier in this report that attendance for live racing is a third of what it used to be, despite a 50 per cent increase in population since the early 1980s. Gross annual pari-mutuel revenue maintains a respectable total, but the wagering is predominantly on the less-profitable imported simulcast product. And it is less than it was 10 years ago despite inflation and a larger general economy.

What this means is there is less money for purses. Correspondingly, there is less money to spend on horses and breeding. This has imposed a survival mentality upon horsemen, who have no choice but to demand as much as they can get from the pari-mutuel activity, as either purses or incentives to breeders. From the operators' point of view, that means less money available to encourage new fans and better attendance at the track.

It also encourages those managing the sport to rely more heavily upon the lowest-overhead ways of achieving cash flow. That means ever-increasing numbers of

televised races and more technology to facilitate electronic wagering. Every step in those directions is a discouragement to live racing.

OBSERVATION:

IT IS TECHNICALLY POSSIBLE TODAY FOR A HANDFUL OF RACETRACKS, DEVELOPED AS GIANT TELEVISION STUDIOS, TO SERVE THE GAMBLING INTERESTS OF THE ENTIRE WORLD. IF BETTING IS THE SOLE MOTIVE, THERE IS NO NEED FOR A FAN TO EVEN BE IN THE SAME TIME ZONE AS THE RACE, LET ALONE ALONG THE RAIL.

The industry has failed to generate new audiences that appreciate the colour and excitement of the live race. This is the future challenge. What makes horse racing of great value to any economy is its deep roots in farms, training and agriculture.

What once was a thriving industry in British Columbia, breeding, is now at risk. Here are a few general observations:

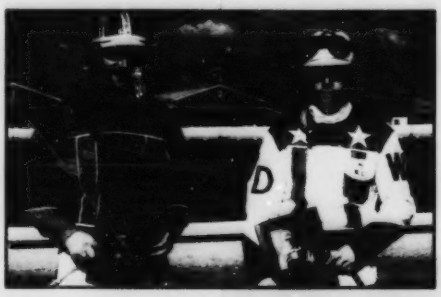
- There has not been a B.C.-bred Grade I Stakes winning thoroughbred since *George Royal* in 1964. Although the grading system just began in 1973, *George Royal* won several that are now Grade I events.
- Foal production for thoroughbreds and standardbreds has reached all time lows. Thoroughbred breeder incentives have not worked - there were 898 foals in 1986, but just 620 in 1996 and only 465 by 1999.
- Perhaps, more importantly, the number of horse owners continues to erode. There were 3,829 thoroughbred owners in 1995 but just 2,496 at the moment. The numbers are less dramatic in the standardbred sector, but the slippage is just as severe, because the outside investor type of owner is withdrawing, and racing trainers and drivers acquire more inexpensive horses merely to survive.
- Of 1,963 thoroughbred horses registered at Hastings Park in 1998, 1,426 of them started. A year later that had dropped by 10 per cent and in 2000, there were 1,559 horses registered, of which 1,076 actually started.
- The number of standardbred broodmares in the province has fallen to 250. The benchmark for a healthy industry is 800 to 1000 mares. The number of standing stallions has dropped slightly in recent years.
- About 200 standardbred foals are now being produced each year, about half the total of 10 years ago.
- There are 400 harness horses ready to race right now. It would take 1,000 to achieve the five-card week once standard at Cloverdale Raceway (Monday, Wednesday and Friday nights, weekend afternoons - plus statutory holidays).
- By the time a standardbred foal becomes a yearling, the breeding and early development will have cost between $5,000 and $12,000. The current average sales price of a yearling is $5,700, but that is misleading. Breeders often put their yearlings up for sale and buy them back, simply to record a transaction to qualify the animal for high-purse stakes races. If a horse is able to race at the age of two, it is likely that the owner has invested more than $20,000. The probability of earning purse income to recover the investment, in addition to paying all of the subsequent training, stabling and racing costs, is highly remote.
- Numbers are scarier in the thoroughbred sector. The percentage of new foals that remain healthy enough and good enough to race competitively is lower, and the number of racing opportunities are fewer than in the standardbred sector.
- Simply put, the cost is just too high for hobby owners, which constitute a high percentage of horse ownership in B.C. Their numbers are consistently receding.
- During 1986, there were 10,382 starts in thoroughbred races in B.C. That number was just over 7,000 during 2000 (roughly 1,000 horses averaging 7 starts each).
- The racing season at Hastings Park and Fraser Downs has been constricted to well-below 100 race days per year. The peak at Hastings Park was 1985 with 140 days, but approximately 120 has been the norm for both sectors through the 1990s.

One of the greatest mares ever to race in B.C., Delta Colleen, poses in the paddock with prominent trainer Harold Barroby and her principal jockey, Chris Loseth.

Prestige and pride of ownership

Horsemen say the thrill of victory, particularly in an important race, is indescribable. When the owner and trainer have followed the horse since its birth, the experience is even more sweet. It justifies many disappointments and expenditures. The joy of the competition and the occasional success story motivates horse investors far more than money.

There used to be a great deal of prestige attached to horse ownership, particularly in the thoroughbred sector, "the sport of kings." Good media coverage and frequent attendance by the leaders of society tended to put the well-known horsemen on pedestals.



Superstars by any definition, Joe Hudon (left) and Bill Davis have won multiple North American Driving Championships on the Cloverdale and Sandown tracks, a better winning average in a single year than any driver on the continent. Hudon, relocating to Ontario in 1992, became Canadian Horseman of the Year in 1994. Bill "The Dominator" Davis continues to thrill local fans as a driver and trainer.

Successful racing operations usually have a deliberate policy to honour those who invest in horses: special lounges, VIP passes, parking privileges, prominent boxes, gifts and presentations following races. Some of this is done in B.C. but a great deal more can be done. The backstretch environment of this province's racetracks often resembles slum conditions. Trainers and their staff used to take great pride in hosting horse owners, their families and other visitors for a behind-the-scenes look at the business.

One of the greatest horses in history once held the track record at Cloverdale Raceway. Here Cam Fella is shown at Fraser Downs with driver & trainer Pat Crowe and co-owner Norm Clements

Rebuilt stables were part of the PRA promise when they took over management at Hastings. The big red barns at Fraser Downs, each home to 100 horses and their trainers' infrastructure, were the envy of the industry when they were built in the mid1970s. This is true no longer. The backstretch offices and cafeteria are very rundown.

Horsemen usually get first call on the best private boxes in grandstand areas, but these have far less value in today's environment when most people demand an individual television set with simulcast channels, and many want white table cloth dining. With the help of the Horse Racing Improvement Fund, Fraser Downs has addressed this to some extent with its new Homestretch Lounge, where horsemen have the first call on reserved tables along the track.

Owner attractions

The product subcommittee addressed efforts to encourage ownership for both breeds:

- Increase promotion of yearling sales with an emphasis on creating special events.
- Encourage ownership syndicates.
- Upgrade owner facilities and privileges.
- Modernize and update backstretch operations.
- Revitalize media relations efforts to instil pride of ownership through coverage of racing events.

RECOMMENDATION

This committee will work with operators and horsemen to thoroughly investigate the "pride" and "prestige" aspects of the ownership experience and see what can be done to show prospective new investors that racing can be a rewarding personal experience and recreation. This may require special lounges, gifts and privileges, likely affordable if they are a conscious part of an annual business plan.

General presentation

Simulcasting beams Hastings Park and Fraser Downs races to TBC Teletheatres around the province, and frequently to other North American tracks. Excellent steps were taken in 2000 to improve the presentation at Hastings Park, including national anthems, a trumpeter, a horse drawn landau transporting presenters at major stakes races and a gazebo in the paddock. Fraser Downs faces the more difficult winter season and has

tried, despite frequent mud and wet conditions, to create a pleasant backdrop for the winner's circle.

Trainers and their staff often spend a great deal of time grooming and preparing their horses for the paddock and post parade. It is the feeling of the Economic Development Committee that more attention might be paid to how personnel present themselves before the public, particularly in view of television cameras.

OBSERVATION

TOO MANY OF THE TRAINERS, ATTENDANTS AND OWNERS WHO APPEAR IN THE PADDOCK OR THE WINNER'S CIRCLE OF EITHER TRACK ARE UNKEMPT.

At major U.S., British and international tracks, trainers and horse owners are invariably well-dressed, the men usually wearing jackets or blazers and tie. Mandating this is unnecessary in our market and would probably be unwelcome, but the personnel of the industry should not expect much respect if they have little concern about how they appear themselves.

Thoroughbred industry representatives have suggested that TBC Teletheatres could take a leadership position in a program to improve and enhance the presentation, particularly the telecasts. Some of these suggestions would upgrade the presentation of both racing sectors.

THE PERSONNEL

- Dress code for horse handlers and trainers
- No smoking rules for everyone associated with horses in any area that may be in the public eye or on camera.
- An incentive program to encourage trainers to supply their staff with appropriate wear.

RECOMMENDATION

TRACK MANAGEMENT AND HORSEMEN SHOULD CREATE A DISCUSSION PROCESS WITHIN THEIR SECTORS AS TO A DESIRED PUBLIC PRESENTATION. IT IS BELIEVED THAT IF THE MORE PROMINENT PERSONALITIES OF THE SPORT ESTABLISHED A CODE OF CONDUCT AND A STYLE FOR THEIR OWN STABLES, OTHERS WOULD FOLLOW. A SUITABLE INCENTIVE PROGRAM MIGHT BE DEVISED.

THE TV PRODUCTION

- Better graphics would help.
- It must baffle non-racing and television professionals to see TBC cameras honed in on escort ponies rather than race horses during post parades. The convenience of camera crews and the cost of an extra position, are higher priorities than the product.
- Post-race discussions and analysis with an emphasis on horses which have troubled trips, speed duels, unreasonable fractions and other commentary, would, in time, enhance fan appreciation for the sport.
- More interviews with jockeys and trainers, both before and after races. Feature stories about racing stars - horses and people - should be regular features on TBC productions.

OBSERVATION

THE MEDIUM IS THE MESSAGE. INVEST IN "FIRST IMPRESSIONS."

HORSEMEN'S PRINCIPAL CONCERNS

Following is a summary of other concerns as related by the Economic Development Committee's "product" subcommittee.

- Instability of ownership. Fraser Downs has been for sale for years. The PRA has been marking time, managing a difficult financial situation, and waiting for a new track development. The lack of investment in physical plant has significantly reduced customer satisfaction at both the PRA's Hastings Park and the privately owned Fraser Downs. Both facilities in their current state do not provide an environment that is competitive with other major sports offerings. Investment with long-term thinking is urgently required.
- Customer service has not kept pace with customer expectations.
- Media coverage is poor and marketing efforts by the tracks have been modest and unsophisticated. They have failed to generate interest in the product.
- Teletheatres and new technologies raise funds that help purses, but they do nothing to create new fans.
- A danger inherent in Internet and technological development is less incentive for investment in a modern comfortable environment for live racing.
- The size of fields continues to deteriorate, particularly in the thoroughbred sector (see following, later this section).

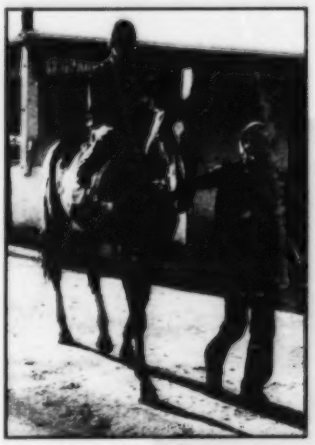
- There is no local racing circuit for the harness sector. The nearest tracks are California and Alberta, an expensive transport proposition. The opening of Emerald Downs has somewhat lessened the impact of isolation for B.C. thoroughbred horsemen, and a healthy exchange exists, but the contrast between a sparkling new facility in Seattle and Hastings Park has been troubling.

Races per day, race cards per week

A current source of anxiety grows out of the shrinking horse populations and the difficulty filling race cards. Both the thoroughbred and standardbred tracks used to race five days a week. Now they most frequently restrict events to Friday, Saturdays, Sundays and some statutory holidays. Fraser Downs had enough horses early in 2001 to add Thursday racing, but Hastings Park expects to race Wednesday night, Saturday and Sunday afternoons, and some holiday Mondays in 2001.

Jack Diamond & Friend

It makes more economic sense for an operator to present three 12-race cards than four 9-race cards. Horsemen bitterly complain about the workload involved and the unevenness this means for their training schedules. Yet it can be demonstrated that large fields of horses in each race will achieve more bottom line pari-mutuel profit for all recipients, than the same action spread thinly over more days and races.



One of Jack Diamond's many great horses, Mr. Prime Minister in 1978.

During 2000 the standardbred sector reached a compromise that if a horse population exists to regularly ensure 40 races per week, this will be divided into four race days, Thursday through Sunday. Any less than that would mean three days with more races per card.

The thoroughbred sector takes more time between races and an 8-race card is the bare minimum. But nine or 10 - particularly on weekends - achieve profitable results, particularly if most races have a full field of horses.

Sector advisory committees

Two other BCRC committees, the Thoroughbred Advisory Committee and the Standardbred Advisory Committee, have paralleled the work of this Economic Development Committee. Each of these has separately assessed the needs of their sectors, and particularly how best to invest the funds accruing from pari-mutuel revenues.

Standardbreds

The product subcommittee characterized the key standardbred recommendations as follows:

- Breeding bonuses have doubled in 2000-2001 The new base should continue for a minimum of five years. Following that period, breeding bonuses can be reformulated to reward performance.
- Reintroduce B.C. bred bonuses.
- Increase the purse pool until it is at competitive levels with other jurisdictions. Great steps in that direction were taken in the fall of 2000.
- The B.C. stallion bonus, reintroduced in 2000, should be enhanced.

Thoroughbreds

OBSERVATION

The most critical problem in thoroughbred racing at the moment is the size of the field - the number of starters per race. Far too many races go off with just 5 or 6 horses and some of the more celebrated stakes races feature as few as four. Big fields of horses, a more important factor than quality or speed, create entertainment, competition and high pari-mutuel participation. Races from most simulcast sites have 8-14 starters in their races, and that's where B.C. bettors are wagering their money.

The average number of runners in each local race in 1990 was 8.91. In 1993, this number was 8.4, very close to the North American average of 8.56 that year.

By 1998, the B.C. number slipped to 7.34 per race compared to 8.17 elsewhere on the continent. The downward trend continued in 1999 and 2000.

Four or five horse fields are disastrous. Larger fields with eight or nine horses (sometimes more for thoroughbreds) are essential for pari-mutuel activity. A phenomenon of the sport is that an 8-horse race with cheap claimers will usually attract much more wagering than a 4-horse field of champions.

Several proposals were put forward to address this growing concern:

- Special rewards for horse owners who put horses into full fields, and at least one 10-horse Superfecta event each day.
- This special race would have a well advertised and promoted guaranteed mutuel pool, a certain payout of as much as $25,000.
- A further incentive might be a guaranteed purse increase of 25% if the race goes to post with nine or more starters. This could be apportioned as 15% to the race winner and 2% each for horses finishing 6th to 10th.

Phil Coleman, at the sulky, is shown following a winning drive during Exhibition Park's abortive 1970 harness racing meet. Despite attempts to compact the thoroughbred track to create a hard harness racing surface, the meet invariably swam through a sea of mud. Coleman's horse this day won the mile in 2:28 4/5th. about 35 seconds slower than his sensational Fast Lane Cruzin achieved in 2000 on the Sandown track.

The late Jim Keelings (Junior and Senior), who gave the standardbred horsemen the track, facilities and the leadership they needed to build a harness racing industry.

RECOMMENDATION

Larger fields in each race would increase the pari-mutuel handle and assist the marketing of the B.C. race product to other simulcast venues. An investment of funds in pursuit of this goal should be a priority.

The product subcommittee characterized the key thoroughbred recommendations as follows:

- Enhance the purse pool.
- Redirect current breeding bonuses immediately to reward performance.
- Significantly increase the B.C. bred bonus.
- Retain stallion bonuses at current levels.
- Introduce a horse purchase program with funds directed toward the middle claiming categories.

Syndications and Promotions

Not only did the subcommittee suggest greater efforts at syndication, Hastings Park proposed to the committee that a promotion be devised for purchasing middle-level horses, ready to race, and nominally assigning ownership to media personalities. The Thoroughbred Advisory Committee, apportioning funds from that sector's pari-mutuel revenue, is going ahead with an aggressive horse purchase program. The thrust of this is to ensure larger fields of horses in each race.

It has also been suggested by stakeholders and committee members that some of the $1 million Economic Development money (20002001) associated with this long-term plan could be used to enhance these initiatives.

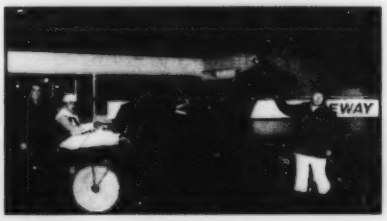
RECOMMENDATION

The committee has agreed in principle that the investment of a substantial sum for horse purchasing would be entertained, and further study can determine how best to achieve practical and promotional ambitions.

The Fan Perspective

It is uncertain whether the kinds of races and purse divisions created by track operators and horsemen will deliver the kind of fan excitement necessary to divert attention from TV races. Fans complain that there is too little money for older horses, too little competition with horses from other jurisdictions and too much invested in stakes races, particularly for two-year olds.

George Royal, the greatest B.C. bred thoroughbred ever, back in 1970 from triumphs all over North America, greets the sculpture in his honour which stands to this day in the Hastings Park paddock.



One of the key builders from the earliest days has been owner/trainer Bill Young, shown in this 1980 photo at the horse's nose. In the sulky is a former driver/trainer Keith Quinlan, now the Director Racing and Assistant General Manager at Fraser Downs. To the left of Quinlan is John "Scotty" Gunion, a veteran horseman and member of the current security staff at Fraser Downs. Bill Young's wife Marion not only co-owns horses with her husband, she is actively building an impressive archives at Fraser Downs for the province's standardbred sport.

These are usually of only limited interest to occasional fans and low pari-mutuel pools reflect the apathy of serious horse players.

RECOMMENDATION

FANS, LAPSED FANS AND POTENTIAL FANS OF THE LOCAL SPORT SHOULD BE PROFESSIONALLY SURVEYED TO PRECISELY DETERMINE THE KIND OF RACING THAT HAS GREATEST APPEAL. WHAT GENERATES EXCITEMENT? WHAT ASPECTS OF THE TOTAL PRODUCT, INCLUDING FOOD AND HOSPITALITY SERVICES, MIGHT ATTRACT GREATER PATRONAGE AND PARTICIPATION?

DISPERSING ECONOMIC DEVELOPMENT FUNDS

When this committee was first formed and it was announced that $1 million would be set aside for 2000-2001 (and we anticipate the same in 2001-2002), several industry authorities quickly commented that if there was just one place to put this, the best destination would be the purse pool.

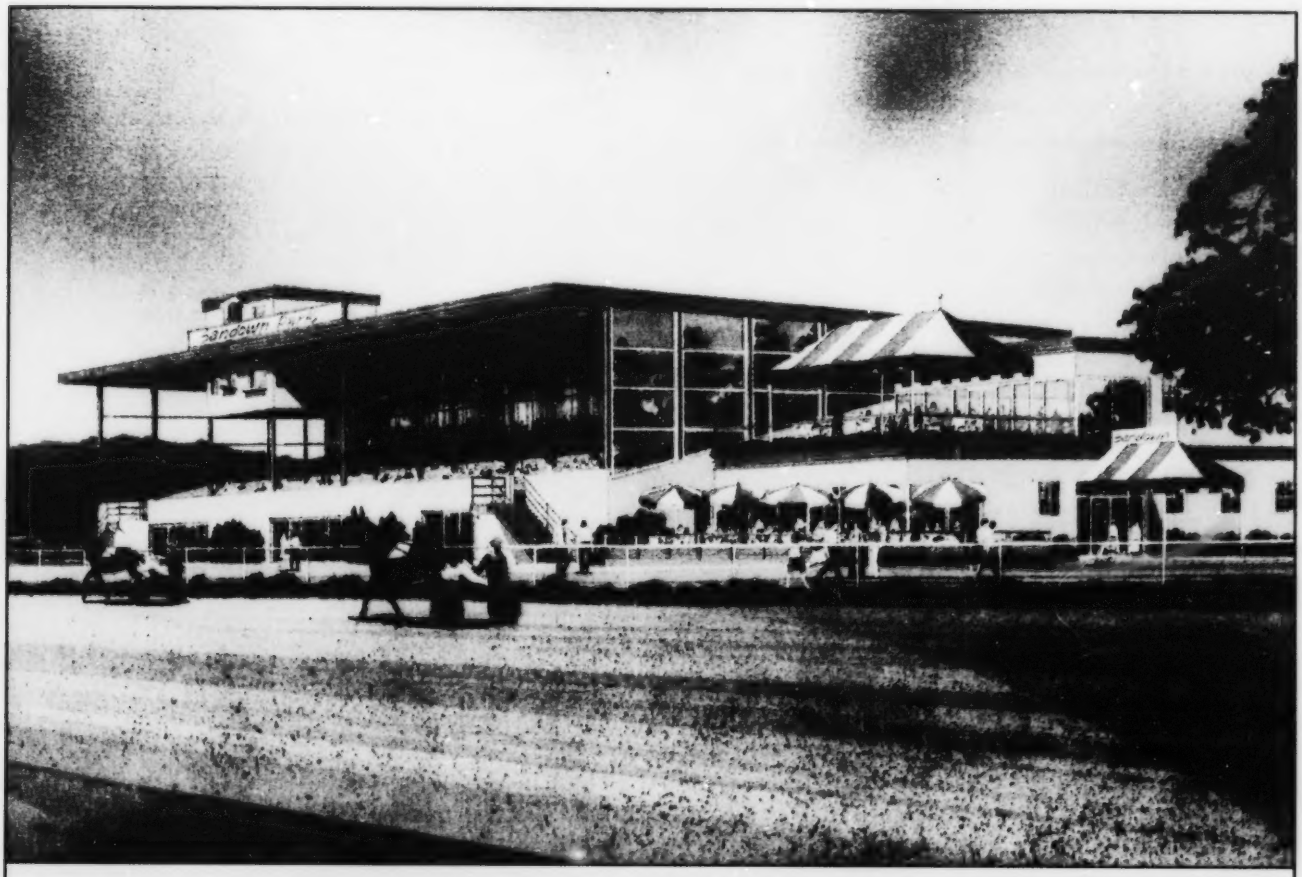
OBSERVATION

Sam Krasner after his 1990 BC Derby triumph

INCREASING PURSES IS THE ONE EXPENDITURE THAT BENEFITS EVERYONE. IT CREATES BETTER RACING FOR THE OPERATOR AND ATTRACTS MORE FANS, THEREBY INCREASING FOOD SALES AND PARI-MUTUEL REVENUE. IT DIRECTLY BENEFITS JOCKEYS, DRIVERS, TRAINERS AND OWNERS AND EVENTUALLY ENCOURAGES PEOPLE TO BUY BETTER AND MORE EXPENSIVE HORSES. THIS ENHANCES THE BREEDING. STAKES RACES FEATURING LOCALLY-BRED HORSES, MARES, STALLIONS OR LOCAL SALES ENCOURAGE EACH OF THESE ACTIVITIES.

RECOMMENDATION

AFTER FUNDING THE NEW ECONOMIC DEVELOPMENT THRUSTS AS OUTLINED IN THIS REPORT, THE BALANCE SHOULD BE USED TO ENHANCE BOTH THE PRODUCT ON TRACK (RACES AND PURSES) AND THE PROVINCE'S BREEDING STOCK (SUPPLEMENTS AND BONUSES).



V. Repositioning the Brand

An assignment to create a long-term plan for economic recovery would seem to indicate a substantial need for marketing and promotion. The committee received many presentations requesting funds for different promotional initiatives and some argued that horse racing needs more advertising to raise its profile. Later in this section of the report we will outline a number of promotional concepts and a willingness to recommend expenditures to support them.

At the outset we must report that the marketing subcommittee of our Economic Development Committee was emphatic in suggesting that, until the industry can precisely define the brand and its target audiences, the expenditure of significant new marketing money would largely be counterproductive. Until then, funds would be better kept in the bank. Or, as the horsemen among us kept reminding, "put it into the purse pool."

The horse racing brand

It has been emphasized throughout this report that the concentration upon pari-mutuel wagering and competitive forms of gaming has caused the industry to lose site of its total market. Apart from the slot machine controversy, behind-the-scenes industry dialogue is invariably disparaging of efforts that might bring more non-bettors or so-called $2 bettors (which means just about every first timer).

OBSERVATION

Tomorrow's fan is today's loss leader. The horse owner of next year may be the social guest at today's race card.

But what is horse racing selling? The industry has made it abundantly clear that it can't compete with casinos or lotteries. Can horse racing compete with professional

sports? Or personal recreation choices such as skiing? What about restaurants and other forms of entertainment? How does horse racing address these markets?

Inadequate marketing and promotion has allowed horse racing to fade from the public's mind. In order to help reverse the declining fortunes of the racing industry, the marketing approach has to be updated and re-established.

RECOMMENDATION

The industry is at the point of having to step back to square one to discover, through focus groups and other consumer research, what the brand stands for now and where it should go. The issue of establishing a new brand is crucial for success in the B.C. horse racing industry.

Perhaps the P.N.E. Parade? For kings and commoners!

The world has moved to the brand management system. According to business analysts many sports have done a poor job of researching their markets, and it is reflected in attendance, television ratings and bottom line finances. Some like basketball, baseball, NFL football, and international soccer are drawing huge new audiences and ancillary spin-off profits from television, merchandise sales and corporate promotions. Horse racing is among those that have lagged badly.

OBSERVATION

The industry's favourite measuring stick, pari-mutuel revenues, is no indication at all of a marketable, popular, public identity for the actual racing product. This presents an opportunity. The brand has fallen so far out of the public mindset, we have the luxury of reconstructing the brand without a lot of negative baggage.

RECOMMENDATION

With lessons learned from consumer research we must define a simple basic identity factor that will be the racing "brand" and reorient ourselves to appeal to the general entertainment, hospitality and sports markets, with the added excitement of pari-mutuel wagering.

In establishing a brand it is crucial to remember what is being promoted. In terms of horse racing, it is a return to the entertainment business, not the gambling industry.

RECOMMENDATION

In the event that slot machines are approved for introduction at British Columbia tracks, it would be crucial to ensure that an unprecedented push is made at the same time to focus on live horse racing. Failure to do so would drive the public mindset about racing further back into the realm of gambling, where racetracks cannot win.

The "capital supplier"

Among the first industry representatives who appeared before the committee was Phil Heard, the General Manager of Hastings Park Racecourse. He delivered an impassioned presentation on behalf of the horse racing fan, describing the customer as the "capital supplier" and suggested that all solutions must start with that premise. Here is an excerpt of those remarks:

> And how have we treated this gold mine? We have beaten him like a mad jockey beats a bad horse during training. We rode him hard, gave him the crop and showed him the door. We have let his facility run down and get dirty, we have forced bad food onto him, we have increased take out rates to try and keep us running, we have shoved technology down his throat to reduce manpower, we have shortened his pleasure season, we have shrunk the fields to where he only has

> slight interest now and we have added exotic wagering to the point where some pools are so small, a large bet can change the odds so dramatically, he his betting against himself. We have allowed him to pay the highest price for parking on the continent. We have charged him admission and programs to be sure he is down over $20 before he places his first bet. We have grown old with him and taken advantage of him, snarling all the way. And we have changed his habits for our good, without asking him, like taking away the clubhouse and dropping the dress code in the table terrace. Now we wonder why he has gone away.

Mr. Heard said it is "painfully simple" to get lapsed fans back. You simply must show them appreciation. He argued that it costs twice as much to win back a former friend as it does to keep the one you have today, but four times as much to get a new customer. He added:

> We, as an industry need to start with the capital provider side of our business. I know, the breeders will tell you they need money now, the trainers will tell you we need new owners now, the owners will tell you they need higher purses now and I agree with all of them. But the supply side will have to wait. To get this wheel moving again it needs grease and the capital providers supply grease. We need to take care of them and everything will flow from there.

Who is the fan?

In order to construct a successful brand, there must be an understanding of today's fans, the lapsed fans and those whom we think most likely to be tomorrow's customers. A professional process must identify who this fan is and what that fan's expectations are. Here are some guidelines:

- The horse racing industry needs to identify and re-evaluate itself from the fan's perspective; let the fans say what the business is and where it ought to be.
- Marketers must continually insure the vitality of the brand and make adjustments accordingly.
- Services and products tailored to fan needs builds public support.
- Knowledge of your fan allows for profitable business relationships with related brands.
- Identify the needs horse racing fills for the consumer. There are two types of customer: one that fills the seats, and the other that pays the bills.

In order to properly market a sports brand, partnerships with other businesses are necessary. The sports brand must:

- Be positioned to deliver against consumer needs and be reinforced as necessary through adjusted branding cues as consumer needs shift.
- Partner with other corporations seeking similar markets, enhancing the brand because of the company you keep.
- Be able to adapt to the needs of emerging markets.

OBSERVATION

SUCCESS DEPENDS UPON NOT JUST THE EXPERTISE WITHIN AN INDUSTRY, BUT ALSO THE EXTERNAL VIEWPOINT. DETACHED OBSERVERS, DIVORCED FROM THE EMOTION OF TODAY'S BUSINESS, CAN PROVIDE VITAL GUIDANCE.

Best practices

RECOMMENDATION

AS PART OF THIS RESEARCH, A "CUSTOMER SERVICE EVALUATION" WOULD BE PERFORMED, INCLUDING "BEST PRACTICES" FROM ELSEWHERE.

Five-years ago, the Ontario Horse Racing Industry Association commissioned a study of "best practices" from elsewhere. Here are examples of the findings:

- The Japan Racing Association made determined efforts to position horse racing as a unique type of sport with the ability, through a wager, to make every fan a participant. But the JRA also did something quite ingenious. They decided that Japanese women would have little interest in pari-mutuel wagering so they built a promotional campaign exclusively for women, not only about horses, training, the colour and excitement, but also about items such as food, fashions at the track and the total experience. They came in huge numbers, facilitating even greater enthusiasm from their male escorts, most of whom were big league bettors.

- Hollywood Park created a total entertainment environment with a casino (card games only), convention facilities and up tempo music-oriented $1 Friday nights for the young crowd.

- Breeder's Cup has been a sensation. By bringing together the very best horses in the world in seven different categories (increased to eight in 1999), chasing million and multi-million dollar purses, the industry has surpassed anything attained by the Kentucky Derby. Several hours of network television time is sold at a premium, and racetracks everywhere create special promotions for local fans. Many thoroughbred tracks, during the racing season preceding the big day, feature graded "Breeders, Cup" eligibility races, a countdown that gets everyone's attention as horses vie for inclusion in the finals.

And here's a recent practice that is more current and proving to be very effective and rewarding in California and elsewhere:

- Some thoroughbred tracks have addressed the difficulty casual fans have with the 30-minute gap between races by featuring two race cards per day, the live one right in front of you, and the other which comes 15 minutes later on TV from the other California track. For example, If you arrive at Santa Anita or Hollywood Park, in the Los Angeles area, your program may have 20 races - 10 live races at the LA track and 10 on television from Bay Meadows or Golden Gate Fields near San Francisco. The northern tracks do the same in reverse. The magic of this approach is that the simulcast races are treated with all the fanfare of the live product: same program, same race information, same TV prominence and same public address methodology. These tracks would offer that day several other race cards on their simulcast program, but the fan would have to purchase a separate program, surf the table top TV, or find the appropriate monitor in a public place, to watch and bet on those races.

- Televised horse races to off-track establishments and, through new technologies, to home television have been precisely timed for years in Great Britain and Australia, usually giving fans multiple race courses with a new race going every 10 or 15 minutes.

The marketing subcommittee

This subcommittee reviewed many reports and studies that have been done on the industry, most notably the PricewaterhouseCoopers "Horse Racing Review" of 1999. Some of the findings not previously outlined in this report were:

- It is estimated that between only 4% and 7% of the adult population in BC have a propensity to game or between 118,000-220,000 adults. Almost 97% buy lottery tickets, however, indicating a propensity to gamble.

- The market potential for racing (live and simulcast) is estimated at between $178 million and $208 million. Current total wagering is $225 million, suggesting the market potential is currently being realized in BC

- Dedicated Players Profile: older (75% over 45 years of age); lower income (50% earn less than $40,000 per year); predominately male (81%) and 36% have post-secondary education. The dedicated player wagers 113 times per year at an average wager of $140 per visit. With this profile, the dedicated player market applies to a limited segment of the BC population.

- Infrequent Players Profile: younger (77% between 25 and 54 years of age); 76% of them earn more than $40,000 annually (53% for the BC population as a whole); 63% are male; and 70% have some post-secondary education (60% for BC as a whole). These players wager 24 times a year with an average wager of $46 per visit.

- 60% of both dedicated and infrequent players live within 15 km of the track.

- Only 22% of horse race players also play the slots.

- Dedicated players indicated they would be more likely to wager if:
  - Parking and admission rates were reduced or eliminated.
  - Tracks had 'better' facilities and amenities.
  - Wager pools were larger.
  - Number of horses per field was larger.

- Potential players indicated they would be more likely to wager on horses if:
  - Tracks offered other entertainment.
  - Parking and admission were reduced.
  - Tracks had 'better' facilities and amenities.
  - Tracks had other forms of betting.
  - Tracks had more of a general entertainment atmosphere for families.
  - Handicapping and wagering were explained.

A MARKETER'S PERSPECTIVE

The industry has lost 'cachet' compared to other forms of entertainment available and compared to racing in other jurisdictions. It is not a place to go or be seen in B.C. as it once was and is in other places today. It lacks lustre, appeal, and drawing power.

- Marketing budgets for other competing forms of gaming, particularly lotteries are substantial and marketing is consistent and professional. The horse racing industry is being out-marketed by competition from within the sector and from other sectors.
- Potential players and participants alike are suggesting we are in the 'entertainment' industry and that they would be amenable to an expansion of the overall experience at the track.

OBSERVATION

STAKEHOLDERS IN THE INDUSTRY ARE PASSIONATE ABOUT THE BUSINESS AND DEDICATED TO IMPROVING ITS PROSPECTS FOR THE FUTURE. FURTHERMORE, ALTHOUGH THERE ARE VARIOUS IDEAS ABOUT WHAT NEEDS DOING AND IN WHAT ORDER, THERE APPEARS TO BE A GROWING CONSENSUS AND A READINESS FOR JOINT ACTION.

- Marketing budgets are meagre but even with more money the 'value proposition' is unclear, the nature of the experience is poorly defined and the overall 'positioning' of the product is weak, even outdated.
- It is clear that Asian players represent a major share of the dedicated on-site market, but little is known about this sector's needs or interests.
- Horse ownership is not increasing and although syndication is relatively cheap, easy to arrange and tax deductible (with limitations), it has not caught on among those who could become involved, particularly in Downtown Vancouver. Corporations pay for hockey, basketball and golf memberships and happily entertain clients and colleagues in those venues, but few, if any, own horses at the track or entertain themselves or friends there.
- People don't seem to know how to wager. It is complicated and requires practice and skill. Few would risk becoming involved without education and knowledge and have openly said so.
- Most players live close by tracks (within 15 km) making targeting the market through 'proximity market' a viable and cost-effective strategy.
- The race tracks have very few promotional partners and sponsors, limiting the racing industry's ability to extend its reach into other people's markets and reposition itself by the company it keeps, let alone leverage other marketing budgets and activities. These partnerships are viable and essential in every other industry today.
- There is a consistent core of dedicated players who are contributing largely to the revenue in the industry. Little is known about them, particularly the Asian player; few efforts are made to hold on to them or to increase their participation. Stabilizing and retaining their market while reaching out to new ones will be important in maintaining current revenues.
- Understanding and building a healthy brand is the essential first step toward a marketing and promotion strategy. What is the promise the product or service makes to the consumer?

CONFERENCES & EVENTS

Modern racing complexes are large facilities with a variety of lounges, restaurants and even vast empty halls on non-race days. Multidimensional entertainment developments at major tracks these days are focusing on group, corporate and convention sales, along with fundraisers for charity, dances and similar functions. It is a question of space utilization.

Each such event is a promotional opportunity, a chance to encourage a new audience to come back to the facility and learn what it is all about.

STAFF AND CUSTOMER RELATIONS

Consumer research will determine the kind of service the public expects, and from that information managers

can assess staff requirements. During the course of committee work, it was repeatedly stated that new customers find the wagering procedures confusing and intimidating and various suggestions were made, including a proposal from Hastings Park to construct a "Welcome Centre" to greet and orient visitors.

Racetracks everywhere have periodically designed programs to have hosts or hostesses, cheerfully uniformed, available to counsel anyone. These usually are popular services but almost always fade away, likely because available bodies get thrust into areas where more vital services are needed. The "welcome girl" quickly becomes a waitress because someone else called in sick.

It was also suggested that customer services staff at racetracks be given the kind of "good host" training so commonplace elsewhere within the hospitality industry, and possibly even a new program designed exclusively for racetrack personnel.

Jockeys? John Candy appears with jockeys (left to right) Dave Mylrea, Ruben Solis and Tom Wolski, during the making of a movie at Exhibition Park (now Hastings)

OBSERVATION

THE GOAL OF THE RACING INDUSTRY MUST BE TO PROVIDE EXCEPTIONAL SERVICE TO ITS CUSTOMERS, MEANING SERVICE THAT EXCEEDS CUSTOMER EXPECTATIONS. ONLY WHEN CUSTOMERS RECEIVE EXCEPTIONAL SERVICE WILL THEY RECOMMEND THE EXPERIENCE TO OTHERS AND EXPAND THE CUSTOMER BASE BY WORD OF MOUTH.

The first step to service improvement is to know both your internal and external customers. The philosophy of treating customers the way they want to be treated must include making no assumptions as to what services they really want. External customers include current and future customers. Internal customers are staff and people you depend on to provide service.

Research shows that, when evaluating service quality, customers consider two key factors: process and outcome. The process is the service experience and how they access the experience, such as were the employees pleasant or how far a customer had to drive. The outcome is the product, such as the quality of the horses. Both must match expectations for service to be judged satisfying, and both must exceed expectations for service to be judged as superior. Customer service research must focus on the experience or process, and not only on the product. There is little to be gained by promoting and marketing racing if the product and experience is substandard.

RECOMMENDATION

THE COMPREHENSIVE FOCUS GROUP RESEARCH OUTLINED EARLIER IN THIS SECTION, THE DEFINITION OF THE RACING BRAND AND KNOWLEDGE GAINED THROUGH STRUCTURED STAFF INTERACTION, SHOULD PRECEDE ANY NEW PROGRAMS OR PROJECTS RELATED TO CUSTOMER SERVICE.

Here are some thoughts that operators might consider:

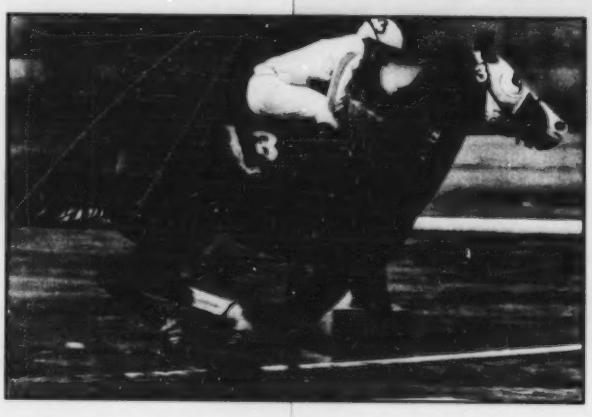
- Customized leadership training could be a key ingredient for success in terms of supporting and maintaining teamwork and internal service.
- An employee incentive program that rewards excellence in service should be considered.
- The series of interactions between internal and external customers forms what is sometimes called the company's service chain. Each interaction with an internal customer is an important link in the chain of events that always end up at the external customer's feet. Every member of the organization can and does make a difference in the effort to provide external customers with exceptional service.
- When a need for improved service is identified, it is well-known that it is usually a problem with the internal customers. Companies that are service leaders started with management training and also with internal service training.

OBSERVATION

Technology has its place in the provision of customer service, but it can also be a barrier to customer satisfaction (e.g., automated telephone message systems). If technology is used, we advise caution that it does not replace face-to-face contact. High technology has to be balanced with high touch. As with any change in service, any vision of technology use should be screened through the eyes of the present and potential customer as part of the research.

Industry education:

Horse racing has become a complex business involving everything anyone in the hospitality and entertainment fields must know, sports marketing, business management and, increasingly, high technology. There are few academic or vocational programs anywhere devoted to the topic, but the University of Arizona in Tucson has evolved an internationally-respected speciality in the field. This is worthy of study. The Arizona program concerns track management, marketing and related industry concerns, as well as the equine sciences. The only B.C. initiative is a small but admirable program at Kwantlen College concerned entirely with the breeding and care for all types of horses. There is no focused program in B.C. concerned with horse racing industry specialties or the careers available.



RECOMMENDATION

Explore with established educational institutions such as Kwantlen College, BCIT, and perhaps even the universities, how we might begin the development of professional horse racing industry programs, curricula and credentials.

Off the radar screen:

Efforts to win public support for horse racing issues in recent years have demonstrated that the industry suffers from the most lethal of all public relations conditions: total disinterest. Surveys demonstrate that the industry has few if any outspoken opponents. Unfortunately, it has very few outspoken anything, except from the shrinking community of racing participants and their fans.

OBSERVATION

Outside of vested interests, horse racing has few knowledgeable friends. Reader surveys by newspapers demonstrate only minority interest. Similarly, political surveys do not show racing issues anywhere on the radar screen. There is no political clout.

Track operators and teletheatres have a day-to-day business need for advertising. We think major campaigns in that regard should await the kind of brand definition outlined here. But advertising to create awareness of the value of the industry, its distinguished past and future potential, could be valuable.

A presentation was received from Keith Dagg, the Chairman of Copeland Communications of Victoria, one of B.C.'s largest and most respected advertising agencies. Mr. Dagg identified himself as a lifelong racing fan and he outlined to the committee a successful promotion conducted at Sandown Park in August, 2000. This was a weekend in which major media partnered with the track in the interests of saving the business and promoting past heroes of the community. Because of the nature of the event, a few thousand dollars of seed money attracted tens of thousands of dollars worth of free advertising and news coverage.

Mr. Dagg's message was that the horse racing industry has to be creative. It should stick with its friends and

build together win-win media partnerships. Asked by the committee if a sum of $250,000 were to hypothetically be offered as a new advertising account, would the industry come forward with proposals, he responded that major agencies could not afford to build a creative presentation based on such a small expenditure.

However, he indicated a willingness to advise the committee further on strategies which might, a project at a time, in various strategic partnerships, multiply small cash investments into major achievements.

RECOMMENDATIONS

WITH FUNDS AVAILABLE TO THE COMMITTEE, THE CONCEPT OF A MODEST PROVINCE-WIDE AWARENESS CAMPAIGN ABOUT THE HERITAGE OF HORSE RACING IN B.C., ITS CONTRIBUTION TO THE ECONOMY AND THE GENERAL FUN OF THE SPORT, SHOULD BE EXPLORED. THIS COULD BE DONE IN A CO-OP FASHION WITH LOCAL TRACKS OR TELETHEATRES. IF THEY WANTED TO TAG ON A MESSAGE ABOUT CURRENT RACES AND ATTRACTIONS, THEY COULD MAKE A SMALL CONTRIBUTION TO THE COST.

WE SHOULD INVESTIGATE THE CREATION OF INTERESTING VIGNETTES FOR USE IN VARIOUS MEDIA. THIS WOULD BE AIMED AT A YOUNGER AUDIENCE AND EVENTUALLY CAPTURE THE ATTENTION OF A HIGH PERCENTAGE OF THE PUBLIC, AND PEOPLE WHO ROUTINELY SEEK OUTSIDE ENTERTAINMENT.

A UNIQUE PROMOTION

It became apparent that dramatic steps are necessary to improve the profile. A proposal put forward by Jim McArthur of Battle Creek Farm, a thoroughbred horse owner and breeder, caught the committee's attention.

In a written submission accompanying an oral presentation, Mr. McArthur said:

> "When I hear plans within our industry for major promotional events, or significant advertising campaigns, I shake my head in dismay. We have tried everything: large purses, television advertising and even purchased telecasts of racing events, and very expensive parties. When these efforts fail - as they always have in recent years - we sit back and wonder why?
>
> The reason is that horse racing's problem is beyond anything that can be fixed by routine advertising activity.
>
> There has to be a shred of interest in a topic before advertising will get public attention. Those who sell food, cars, clothing, major league sports, motion pictures and most other consumer or entertainment products, know there is a market for what they offer.
>
> From the perspective of appealing to anyone but a rapidly diminishing hard core of fans, we have allowed horse racing to drop off the edge. It is so alien to modern audiences that even the best of ads fail to get attention.
>
> Therefore, we have to be more creative. Let's first achieve "awareness" that we exist. Then we can get them to the race track."

Mr. McArthur proposed that the industry work with experts from the British Columbia Lottery Corporation and design a province-wide game upon the principles of Britain's acclaimed Grand National Sweepstakes. Start a year ahead of a big race and sell tickets progressively, with prizes along the way based upon interim horse racing attractions. The target could be the B.C. Derby at Hastings Park. Money and momentum would build long before specific horse names entered the debate. The plan would be millions of dollars on the line the day of the big race, ultimately based on multiple millions more number combinations, but somehow pegged to specific horses.

Mr. McArthur argued that there is an age old principle of business marketing that you have to first get someone's attention before you can profile your product. One way to do that is by offering something you know they already buy and enjoy.

It was explained to him that the BC Lottery Corporation has been regularly pitched by sports organizations and usually concludes that the expense of establishing such a game achieves nothing but moving current lotto revenues from one fund to another.

This comment brought a sharp response from committee members who said that assistance with a project such as this is precisely what a government should do to support the industry. This is not subsidy. This is an economic development initiative that would ultimately achieve a payback to all parties. The horse racing industry should insist upon such co-operation. In fact, the mandate of the B.C. Lottery Corporation is to facilitate positive developments and services in areas outside the ordinary range of government activity.

RECOMMENDATION

We should begin discussions with the B.C. Lottery Corporation toward creating a one-year horse racing lottery promotion, with ancillary prizes along the way, but aiming at a climax with the B.C. Derby and a guaranteed large prize. This could follow the mode of the Grand National sweepstakes in the United Kingdom. We should solicit government support, if necessary, in order to obtain a suitable priority for this initiative.

Media relations

OBSERVATION

There is a feeling among the entire racing industry that it gets far too little exposure in local media. The truth is that the sport gets far more air time or column inches of press than media audience surveys would warrant. Space and time are at a premium in mainstream media and outlets respond to demand. Create the demand and the media will follow.

Horse racing used to be major advertisers. The management of media worked hard to be friendly, often organizing contra promotional deals with no money changing hands. The sport was part of the social buzz. Reporters wanted to be at the track and, once there, they too wanted recognition. They wrote stories and earned comment. This is all old history.

Media can and should be encouraged to pursue stories about economic development, job creation, the thrill of racing, local personalities, horse ownership, and events at the track.

RECOMMENDATION

The sport might consider a communications audit by a dispassionate outside professional who could weigh media needs and interests, and create a plan to make a variety of horse racing features, business and competition stories, of value to urban and community audiences.

Promotional vehicles

The committee's reluctance to advertise before proper research is done is likely correct in principle, but cannot be absolute. Political issues occur every day and just about everything recommended by this report can more easily be done in a climate of public support.

While these healing and eventually rebuilding initiatives are taking place, it is essential for the industry to remain before the public, issuing reminders of its economic importance to B.C., the great heritage represented by the sport and the future potential.

OBSERVATION

The industry must develop promotional vehicles to take the horse racing story to the public. This would include continued support for Tom Wolski's excellent Sport of Kings on Rogers/Shaw Cable, as well as a search for new opportunities.

The committee received an excellent presentation from Greg and Janice MacDonald of Drawing Away Graphics, publishers of *B.C. Thoroughbred Magazine*, among other publications. They appealed for support in view of lost funding from the Canadian Thoroughbred Horse Society. The CTHS remained no less supportive of the publication, but simply could no longer afford the $35,000 subsidy it had been paying.

Their publications are outstanding. Given the narrowly-focused B.C. market and small circulation, it's astonishing what they've been able to do. Even the former CTHS grant seems very small compared to the quality they have achieved.

They advised us that there have been discussions aimed at the following:

- Reconstituting the magazine to serve the entire BC horse racing industry, including the standardbred sector.
- High class Internet development, possibly in concert with TBC Teletheatres' super site ambitions.
- Revise the content to make it less specialized for horse racing interests, and of more interest to a general audience.

Nothing we as a committee could do in terms of public information, credibility and morale-building within the industry could equal the value possible from this source.

OBSERVATION

THIS IS AN INDUSTRY THAT IS COMPETITIVE TO ITS HEART AND SOUL. THE KIND OF COHESIVENESS NECESSARY TO PRESENT COMMON CAUSE TO POLICY MAKERS IS INVARIABLY ELUSIVE. PUBLICATIONS SUCH AS *B.C. Thoroughbred* ARE FAR MORE NECESSARY IN TOUGH TIMES THAN IN GOOD.

We were also impressed that the McDonalds were planning strong Internet partnerships with TBC Teletheatres and the B.C. Tracks, simultaneously publishing to print and cyberspace the high quality features and graphics which have been their trademark.

RECOMMENDATION

WE SHOULD WORK WITH THE PUBLISHERS OF *BC Thoroughbred* MAGAZINE TO BUILD A WORKABLE BUSINESS PLAN FOR A NEW PUBLICATION TO SERVE BOTH BREEDS AND THE ENTIRE INDUSTRY. THE PLAN WOULD BE FOR A MAGAZINE THAT COULD SERVE SPECIALTY INTERESTS WITHIN THE INDUSTRY, BUT THAT ALSO WOULD HAVE GENERAL PUBLIC APPEAL AND NEWSSTAND SALES. THE PLAN SHOULD OUTLINE PROPOSED CONTENT, CIRCULATION, ADVERTISING AND PROMOTION. THE COMMITTEE AGREED IN PRINCIPLE TO ASSISTING FINANCIALLY, BUT POSTPONED ANY ALLOCATION OF FUNDS UNTIL THE RESEARCH, PROMOTION AND MARKET DEVELOPMENT INITIATIVES OUTLINED IN THIS REPORT ARE COMPLETED.

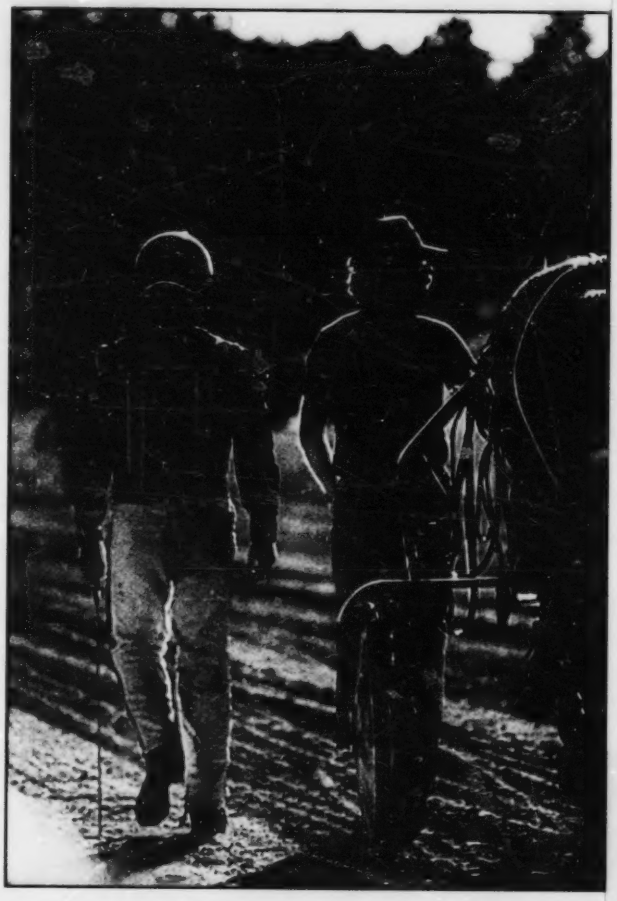
PR FOR EVERYONE

The committee heard many good ideas. Hastings Park, in addition to a welcome centre for fans, proposed a professional industry speakers' bureau which would package presentation supports, such as Power Point Presentations, videotapes and proposed content. Competent public speakers would be promoted as available to groups and academic institutions around the province.

This and similar discussions about a "good host" program, a "welcome centre," encouragement for better grooming and attire among racing personnel and the promotional responsibilities of everyone, gradually came together as one consideration.

OBSERVATION

IT WAS SUGGESTED BY HORSEMEN THAT IN TERMS OF DISCUSSIONS OR SEMINARS ABOUT MARKETING, PROMOTION, MEDIA RELATIONS OR SALESMANSHIP, EVERYONE SHOULD HAVE AN OPPORTUNITY TO BENEFIT. GRADUALLY, WHAT CAME TOGETHER WAS A NEED FOR AN OVERALL PROGRAM TO BRING IN EXPERT SPEAKERS, CONSULTANTS AND ADVISORS TO ASSIST IN SPECIALITY MATTERS, BUT TO DO THIS IN AN INTERESTING AND ENTERTAINING FASHION, HOPEFULLY REWARDING TO THE ENTIRE RACING COMMUNITY. THE FEELING IS THAT EVERYONE COULD LEARN TO BE BETTER COMMUNICATORS, ENHANCING THEIR OWN PERSONAL BUSINESS, AND POSITIVE AMBASSADORS FOR THE SPORT.



Conclusion

Unless British Columbia can magically put the genie back in the bottle and remove slot machines and casino gaming from horse racing's market area, or to do as a few United States jurisdictions have done and provide compensating gaming revenue to assist racetracks and purse pools, then there is but one solution: permit slot machines at racetracks. Without an opportunity to compete in this market, tracks will continue to deteriorate until the B.C. sport becomes a quasi-amateur comedy.

The sport must have major new facilities if it aspires to any kind of a future.

But - perhaps more important than anything - it is time for horse racing people to rediscover who they are and what they are selling.

Implementation

The British Columbia Racing Commission gave the Economic Development Committee an assignment to design a long-term plan for the horse racing industry. As stated in the preface to this report, we have refrained in this volume from putting dollar amounts behind the recommendations, although our mandate delivered $1 million for certain and possibly the same amount for year two. Under separate cover, we have recommended to the Commission how this seed money might best be employed at this stage. We have been asked by the BCRC to outline for their benefit how we would see this program implemented. This we will do in private discussions with the Commission, at the time this report is communicated to them.

Assuming that most if not all of the recommendations here will be approved for implementation by the BCRC, we would look forward to meeting with the principals involved in each issue and quickly putting this money into action.

OBSERVATION:

Fiscal difficulties within the British Columbia sport have seriously damaged the self-image of the industry, but we should keep in mind the horse racing heritage in this province, the traditional high per capita wagering of the average B.C. fan, and the large number of substantial horse investors and fans who would flock back to a better situation. The poor provincial economy, and the so-called "Asian Flu" through the 1990s compounded industry difficulties, but strong links to the dynamic racing industries of Asia, Australia and New Zealand should prove to be a long-term asset. Vancouver is a world-class city in other sports and activities, and horse racing must believe that it too can achieve the top ranks.

Therefore, our committee has assumed the status quo is the lowest ebb, and the future potential should excite horse racing corporations with long-term vision. If the recommendations of this report are all successfully implemented, including slot machines and urban telethetres, the business case would be undeniable, attracting many suitors.

Terms of reference

Economic Development Committee of the BC Racing Commission

Purpose

To recommend to the BC Racing Commission a long-term strategic plan aimed at improving the future economic viability of the horse racing industry and to make recommendations to the BC Racing Commission on the management of the plan.

Objectives

1. To develop a long-term strategic plan for the future economic viability including recommendations on the disbursement of the previously retained tax of 7% of the industry and recommend its implementation to the BC Racing Commission by Dec. 31, 2000.
2. To propose to the Commission, as part of the strategic plan, innovative activities aimed at enhancing the competitiveness of the industry with other forms of gaming and entertainment, and to attract new clientele to horse racing (to include marketing and promotion).
3. As part of the strategic plan to advise on an annual allocation of funds for these activities to improve horse racing's economic viability in BC. As directed by the Minister of Labour for the fiscal year 2000/2001 this will be $1.000,000.
4. To make recommendations on the management and stewardship of the strategic plan.

Membership

1. The Committee will be composed of nine members, including the chair, appointed by the BC Racing Commission for a 2-year term.
2. The Chair will be appointed by the Commission.
3. A quorum will be 5 members.
4. Commissioners of the BC Racing Commission will be ex-officio members.
5. The Director of Racing and Secretary-Treasurer of the BC Racing Commission will be ex-officio members and will act as staff for the Committee.

Decision-making

The Committee will try to achieve consensus (agreement of all, or those who disagree standing aside, i.e., letting the consensus hold.) If consensus cannot be achieved then the committee will have a majority vote and present the commission with recommendations from the majority and include a minority report. Wherever possible attendance will be done via conference call.

Resources

The standard government per diem and travel expenses will be paid to the members of the Committee.

Secretarial, mailing, photocopying services will be available from the Commission. Other needed resources can be discussed with the Commission.

Accountabilities

The Economic Development Committee will make its recommendations and strategic plan to the BC Racing Commission.

It is expected that the Economic Development Committee will consult with the horse racing industry as required, including requesting and receiving submissions from stakeholders and other interested parties.

The BC Racing Commission will review and consult with the Economic Development Committee prior to final approval of the strategic plan and recommendations.

The BC Racing Commission will present the final approved strategic plan to the Minister of Labour.

The Economic Development Committee will provide an ongoing advisory and consultative role in the implementation of the strategic plan.

News Release

The following announced the work of the committee:

News Release: **BRITISH COLUMBIA RACING COMMISSION**

NEW HORSE RACING COMMITTEE TO CHART REVITALIZATION OF INDUSTRY

VANCOUVER (October 4, 2000) - A committee co-ordinated by the British Columbia Racing Commission will develop a long-term economic development plan to revitalize the province's horse racing industry.

"Our sport is going through tough times. We need to explore solutions and put forward a dynamic plan of action," said David Milburn, chair of the new committee. "We have an excellent team in place that includes horsemen, breeders and racing fans. Very importantly, the committee also has members who are industry outsiders with genuine expertise in sports management, human resources, advertising and promotion.

Milburn, a New Westminster-based lawyer and veteran thoroughbred owner and trainer, said the committee is seeking the broadest possible input from stakeholders while striving to complete its report by Dec. 31.

Earlier this year, Joy MacPhail, minister responsible for gaming, announced changes to the Horse Racing Tax Act allowing an additional $3.3 million to be rebated to the industry. The BC Racing Commission was instructed to use $1 million of this money to improve the competitiveness of the racing industry as a whole.

Milburn said one of the committee challenges is to explore the most effective use of the $1 million. "We have broadly defined terms of reference with respect to this fund. It's been suggested that we engage in major promotional activity or make substantial investments in new Internet and media technologies for local tracks, teletheatres, horsemen and breeders."

The committee is asking stakeholders for input on two separate issues: the long-term economic development strategy and the immediate use of $1 million.

"The horse racing industry is one of the most diverse economic generators in BC", Milburn said. "it benefits farms, thousands of independent contractors, suppliers, the Interior Racing Association, TBC Teletheatres and others. Our task is to think of all of them"

Other members of the committee are: Gary Bannerman, Gar Campbell, Virginia Greene, Karen Harrison, Bryant McAfee, Robert Murphy, Brent Scrimshaw and Brian Smith.

FOR MORE INFORMATION, PLEASE CONTACT:

David Milburn, Chair, Economic Development Committee Telephone: (604) 660-7400
Fax: (604) 660-7414 E-mail: racingbc@aol.com

Biographical Notes

Following are the members of the economic development committee:

- **DAVID MILBURN,** Chair, is a lawyer who practices principally in criminal and personal injury law, and a veteran owner and trainer of thoroughbred horses. The third generation of a prominent Vancouver racing family, he is past-president of the Horsemen's Benevolent and Protective Association for both B.C. and nationally, a former director of TBC Teletheatres and a representative on the Horse Racing Alliance of B.C., among many industry initiatives over the years.

- **GARY BANNERMAN**, Vice-Chair, is a broadcaster, writer and corporate communications consultant, and a life-long fan of horse racing who has attended racetracks of all descriptions around the world. In his professional capacity he has undertaken numerous projects for the racing industry, most notably the standardbred sector.

- **GAR CAMPBELL** is the president and manager of Tenold Transportation Inc. of Surrey, a trucking company he founded in 1968 and which works all over North America, principally for clients in the fields of telephone and electrical power, and their suppliers. He bought his first harness horse in 1978, in the earliest days of Cloverdale Raceway, and eventually become a key personality of the industry. A past-president of the B.C. Standardbred Breeders Society and a representative on the Horse Racing Alliance of B.C. since it began in 1996, he plays a central role in most negotiations on behalf of the standardbred sector. He was appointed as a Commissioner of the British Columbia Racing Commission in February, 2001.

- **VIRGINIA GREENE**, the president of Go Direct Databased Marketing Inc., has been one of Western Canada's leading marketing executives for a generation. A former Assistant Deputy Minister of Tourism of British Columbia, the business she founded has evolved strategies and direct marketing initiatives for a long list of clients, including Telus, Kraft Foods, VanCity Credit Union, BC Hydro and the United Way. She sold Go Direct to J. Walter Thompson during 2000, but remains president. She chairs the BC Board of the Canadian Breast Cancer Foundation, one of a long list of worthy causes and community initiatives she has supported over the years.

- **KAREN HARRISON**, principal of K. Harrison & Associates, is a Human Resource Development Consultant with 18 years experience in training design, facilitation and consultation, specifically in customer service improvement initiatives. Among a diverse group of clients have been Stentor Resources Inc., EXPO '87, International Care Corporation, the Better Business Bureau of Lower Mainland BC, Sprint Canada, the Vancouver International Airport Authority and Hastings Park Racecourse.

- **BRYANT McAFEE, F.C.A.**, a Fellow of the Institute of Chartered Accountants of B.C., is Secretary-Treasurer of the Horsemen's Benevolent and Protective Association (B.C. and national). He has consulted professionally and assisted every agency of the B.C. industry over the years, including the British Columbia Standardbred Association. He has been frequently honoured for his work in founding and developing a substance abuse program within the industry, and other benevolent projects. He is also the owner of thoroughbred race horses.

- **ROBERT MURPHY** is one of the leading standardbred owners and breeders in North America, with 300 horses at Red Star Stable farms in Surrey, the Okanagan Valley and racing at various tracks around the continent. One of his horses, *Red Star Minckler*, last year at the Meadowlands, set the all-time record for a B.C.-bred horse with a mile in the phenomenal time of 1:49 , within a second of the world record. A successful businessman, he is the chair and CEO of the company that manufactures Serta Mattresses in Western Canada and he was, until recently, owner of Queen Charlotte Lodge, a noted salmon fishing resort.

- **BRENT SCRIMSHAW**, Executive-Director of the Air Canada Championship, a PGA Tour event, is a graduate of the University of Western Ontario in his home city of London. A former President of Molstar Sports & Entertainment, he has been involved with some of the largest sports events in Canadian history. His most recent position before assuming his present responsibilities was Vice-President, Marketing, for Western Canada, leading Molson's brand marketing efforts in the region.

- **BRIAN R.D. SMITH, Q.C.**, a lawyer, is the Chair of B.C. Hydro, a past Chair of Canadian National Railway, a former Attorney-General of B.C. and Mayor of Oak Bay. A devoted thoroughbred fan who also has visited many international venues, he was responsible for the B.C. sport as Attorney-General, and set in motion 20-years ago, as yet unsuccessful efforts to establish a new one-mile thoroughbred track in this province.

Resource Materials

The Committee sought and obtained a vast amount of research material concerning the province's horse racing and gaming industry.

Among the most important items were:

- ***Racing Industry Task Force***, 1988 (Mohan Jawl).
- ***Request for Proposals, one-mile racetrack***, 1990, British Columbia Racing Commission.
- ***A Survey of Horse Racing Patrons and Prospective Patrons***, 1995, by Campbell Goodell Traynor Consultants Limited, commissioned by Hastings Park Racecourse.
- ***Financial Feasibility Analysis of the Impact of Slot Machines on the Lower Mainland Race Tracks***, 1997, Horse Racing Alliance of B.C.
- ***What Horse Racing Means to B.C.***, 1997, Horse Racing Alliance of British Columbia.
- British Columbia Racing Commission, Annual Report 1997-98.
- ***B.C. Horse Industry in the 1990s*** ,1998, B.C. Ministry of Agriculture (Mark Robbins).
- ***Richmond Downs Racetrack***, 1998, Sungold Gaming International (Kim Hart).
- ***Hastings Park Media Guide***, 1999, Brian Pound, Greg McDonald, Ralph Bower.
- British Columbia Racing Commission, Annual Report 1998-99.
- ***Desert Park On Track***, Osoyoos, B.C., 1999 (Brian Hayes).
- ***From Crossroads to Crisis***, Harness Racing in British Columbia, 1999, by Chuck Keeling & Gary Bannerman.
- ***Province of British Columbia Horse Racing Review***, 1999, PricewaterhouseCoopers.
- ***Report on Gaming Legislation and regulation in British Columbia***, 1999, (Frank A. Rhodes).
- New Zealand, Briefing to the Incoming Minister for Racing, 1999.
- British Columbia Bill 18 2000 - ***Corporate Relations Statute Amendment Act***, with amendments to the Horse Racing Tax Act.
- Industry-related B.C. government news releases 1999-2000.
- British Columbia Bill 31 2000 - ***Gaming Control Act***.
- ***From Crossroads to Crisis, Sandown Update Summer 2000,*** by Chuck Keeling & Gary Bannerman.
- ***Relocation of and Changes to Existing Gaming Facilities in British Columbia***, Review and Recommendations, 2000, Prof. J. Peter Meekison.

Invitation to Stakeholders

The committee sought input from all interested parties and specifically invited all of the accredited agencies and associations involved with the sport. Here is that letter:

To: All stakeholders-British Columbia horse racing industry

From: David Milburn, Chair, Economic Development Committee,

Date: Tuesday, April 03, 2001

Subject: Invitation for submissions

The attached news release explains the assignment faced by this new committee. Our work is independent from that of the BC Racing Commission and we would hope the racing industry and its fans would view us as allies in efforts to improve the sport.

Our final report can only be as good as the information we receive. Members of our committee have grown just as skeptical of studies as I'm sure most of you have, but this time there is real money on the table and a determination to achieve something of lasting value.

We would welcome submissions from any duly constituted organization or individual. Written briefs-at least at the outset-would be preferred. The committee may then chose to follow-up with an invitation to make an oral presentation. If you or your group would prefer not to prepare a-written submission but would like to meet with the committee, please make such a request in writing with an outline of your area of concern. This expression of interest must be received on or before October 18,2000.

Consider our two challenges:

1 We've been asked to draft a long-term economic development strategy for the horse racing industry in British Columbia.

2 A fund of $1 million has been set aside for each of the first two years of this plan, to fund committee initiatives. How might this best be spent?

Send your written submission or request for oral presentation to:

Economic Development Committee
c/o B.C. Racing Commission
#2003 - Metro Tower 2
4720 Kingsway
Burnaby, B.C.. V5H 4N2

The committee has also established a private e-mail address.

We would welcome comments or inquiries via **racingbc@aol.com**

Yours truly

David Milburn, Chair

Summary-Stakeholder Submissions

Oral and/or written submissions were received from several stakeholders, interested parties and industry partners. Excellent ideas were received, although the committee had difficulty separating financial proposals consistent with a mandate to revitalize the industry as a whole, with items that might more properly be considered a routine budget item of the proposing party. The committee could be comfortable with an investment with one specific agency or partner, but only if it served as a pilot project for ultimate industry-wide application.

Committee members who were able to attend the November 2, 2000, oral presentations at Hastings Park found it to be one of the most rewarding exchanges of ideas during the course of the work.

Written submissions were received from the following list. Bold type and the name of the presenter indicate those who also appeared to discuss their proposal on November 2. The written submissions have been bound separately from this report and we encourage interested parties to contact the BCRC to obtain a copy.

- **Bruce Barbour**, General Manager of TBC Teletheatres, delivered a detailed report on "bricks and mortar" and "cyberspace" teletheatre development, proposing the investment of substantial funds in state-of-the art Internet technologies.
- **Chuck Keeling**, General Manager, Fraser Downs and Sandown Park, presented a paper titled *Crumbs Among the Pigeons* , which argued that the complex nature of the pari-mutuel split forced everyone in the industry to constantly compete for their share of the pie.
- **Phil Heard**, General Manager and **Bruce Brill**, Marketing Manager, of Hastings Park Racecourse outlined a number of promotional initiatives requiring funding, including a speakers bureau, a horse purchase program for assignment to prominent media personalities and a "welcome centre" to orient new fans.
- **Tim Larsen**, Executive-Director of both the British Columbia Standardbred Association and the British Columbia Standardbred Breeders Society, outlined a long list initiatives that are attempting to revitalize the breeding, sales and training of harness horses. He made no specific request for funding, but he urged the committee to consider the value of programs in place to enhance them wherever possible.
- **Greg and Janice McDonald**, publishers of B.C. Thoroughbred Magazine, asked for financial assistance in a plan to evolve their publication to serve both thoroughbred and standardbred sports, and to also be of more general public

appeal suitable for newstand sales. They also outlined plans to evolve a sophisticated Internet dimension, possibly in association with TBC teletheatres and industry associations.

- **Keith Dagg**, Chairman of Copeland Communications, Victoria. B.C., said the industry does a poor job of advertising but suggested that partnerships and contra arrangements with province-wide media - particularly with the TBC Teletheatre organization - could achieve promotion far beyond the value of dollars spent.

- **Jim McArthur** of Battle Creek Farm, owners and breeders of stakes quality race horses, proposed a province-wide lottery modelled after the Grand National Sweepstakes in the United Kingdom, and emphasized that the industry needs a promotion such as a lottery to catch the attention of people who now care so little about racing they would pay attention to no other advertising.

- **Mark Robbins**, an agrologist with the B.C. Ministry of Agriculture and the author of a landmark 1998 study on the value of horses - racing and all other types - to the B.C. economy, made a succinct presentation to the committee demonstrating how much greater is the value of live racing, to whatever is achieved by the simulcast product.

- **The Canadian Thoroughbred Horse Society**, B.C. Division, made a modest request in writing for help in the purchase of business equipment, in part to enhance Internet initiatives to promote sales.

- **The Horsemen's Benevolent and Protective Association** suggested that the committee might consider an investment to alleviate a major disincentive to fans from attending races at Hastings Park: the $6.50 cost of parking. The HBPA also proposed that any surplus funds the committee may have after dealing with new items, could best be invested in purses.

- **M&F Godbout and P. Conway** of Port Coquitlam wrote a letter to the committee supporting and opposing a number of matters within the thoroughbred sector.

- **Georgina Olafson** of Coquitlam wrote to support more funds for purses and possibly direct assistance to help horsemen ship from Alberta, but she opposed the horse purchase plan put forward by thoroughbred horsemen.

Fraser Downs

PACIFIC RACING ASSOCIATION
HASTINGS PARK
RACECOURSE

Sandown
PARK

Auto
THE BETTING COMPANY

TBC
TELETHEATRE